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Computers: US hits back in trade war with Brazil, Page 2

World News

Optimism in Geneva as talks resume

Chief US and Soviet negotiators extended talks when they resumed efforts in Geneva to clinch a treaty to reduce nuclear missiles in time for a superpower summit in Washington next month.

Both sides expressed optimism that a pact to eliminate all intermediate-range nuclear missiles - more than 1,000 rockets - would be ready for signing next month. **Troop cuts, Page 2**

Nato nuclear needs

Nato needed better nuclear-strike jets and short-range nuclear weapons to counter a Soviet threat, despite a US missile treaty with Moscow, US supreme allied commander in Europe Gen John Galvin said.

Iran attacks tankers

Iranian gunboats launched two hit-and-run raids against tankers in the southern Gulf, strafing a US-owned supertanker and a Greek-flagged vessel within two hours.

Ozone layer lobby

The European Bureau of Consumer Unions said it would advise the public to stop buying certain products unless the EC and manufacturers imposed tighter limits on chemicals in them which were damaging the earth's ozone layer. **Page 2**

Sri Lanka battle

Indian troops, backed by helicopters and a naval blockade of the coast, intensified a drive to crush Tamil guerrillas in the east of Sri Lanka and killed 15 in a battle. **Bandaranaike's stance, Page 8**

More Malaysians held

Malaysian police detained six more people, five of them Moslem opposition leaders, bringing the total arrested in a political and security crackdown to 103.

Austin Rover strike

About 3,000 car assembly workers at an Austin Rover plant in Oxford, England, staged a one-day strike in a dispute over pensions. **Page 11**

Italian flights stoppage

Flights were cancelled as Italian airport and flight staff began a series of stoppages to press demands for new contracts and better pensions. **Union rebels, Page 2**

Bomb defused

Bomb disposal experts defused a limpet mine found in a Johannesburg post office.

University closed

The Kenyan Government closed Nairobi University and dissolved the students' union after two days of riots over the arrest of student leaders. **Page 7**

Turks detained

Two Turkish Communist leaders were detained for questioning by police when they arrived at Ankara airport after seven years' self-imposed exile in Europe. **Page 2**

Swedish train crash

At least five people were killed and 40 injured when two express trains collided head-on in western Sweden and burst into flames.

New Guinea scandals

The Melanesian island of New Guinea was shocked by two separate but related political scandals. **Page 7**

Sarney's dilemma

President Jose Sarney of Brazil appeared undecided whether to fight on for a five-year term of office and a presidential system of government. **Page 24**

$13m ransom demand

Kidnappers rejected a $1m ransom offer and asked a Lebanese magnate to pay $13m for the release of his five-year-old daughter, abducted on Spain's Costa del Sol.

Business Summary

Japanese consider easing bank rules

JAPAN'S Ministry of Finance advisory body has proposed abolition of barriers between banking and securities business in Japan and between different types of banks. **Page 24**

HARCOURT Brace Jovanovich, the heavily indebted US publishing company which recently fought off a takeover bid from Robert Maxwell, has sold its magazine and school supplies businesses for $334m. **Page 25**

EUROTUNNEL, Anglo-French group building the Channel tunnel, yesterday launched one of the most expensive stockmarket flotations ever staged by a private company. **Page 24**

PLESSEY, UK electronics and defence group, is considering a plan to acquire Inmos, the loss-making semiconductor group, which could trigger a wave of consolidation in UK chip industry. **Page 25**

WALL STREET: The Dow Jones industrial average closed up 14.09 at 1949.10. **Page 46**

LONDON: Late session doubts over prospects for progress on cutting the US budget deficit sharply cut early gains in equities. The FT-SE 100 index closed up 6.4 at 1,684.7. The FT Ordinary index added 36.4 to 1,353.5. **Details Page 42**

TOKYO: Speculative buying helped equities sustain their advance. The Nikkei average rose 167.18 to 22,615.43. **Page 46**

BRITAIN'S retail sales rose a provisional 0.8 per cent to a record level in October, more than reversing a fall in the previous month. **Page 11**

DOLLAR closed in New York at DM1.7145; FFr5.7915; SFr1.4090 and Y137.15. It closed in London at DM1.7025 (DM1.6880); FFr5.7575 (FFr5.7250); SFr1.4015 (SFr1.3875); and Y136.50 (Y135.90). On Bank of England figures the dollar's index rose to 97.7 from 97.0. **Page 35**

STERLING closed in New York at $1.7590. It closed in London at $1.7520 ($1.7690) SFr2.4550; DM2.9825 (DM2.9850); FFr10.0850 (FFr10.1250); and Y239 (Y240.25). **Page 35**

THE NATIONAL Association of Securities Dealers of the US plans to toughen the rules for dealers on the Nasdaq market following last month's collapse in stock prices. **Page 26**

NORSK HYDRO, Norway's largest publicly quoted company, has won the first round in a bid to block its SKr250m ($36.76m) deal to sell two Swedish industrial gas subsidiaries and a stake in a Finnish gas subsidiary to Aga of Sweden. **Page 26**

DEUTSCHE BANK, biggest West Germany commercial bank, has taken a stake in Immobilien-Holding Zimmer, a Cologne-based estate agent. **Page 26**

KOWA REAL Estate Investment, Japanese property group whose shareholders include Nissan, Hitachi, Nippon Life Insurance, and the Industrial Bank of Japan, has invested FFr2.5bn ($437m) in a property development project in Paris. **Page 26**

ALLIED IRISH Banks may postpone a planned increase in its 49.5 per cent investment in First Maryland Bancorp because of changes taking place in the US banking market. **Page 26**

BMW, West German motor group, reported sales up 17 per cent in nine months to September and expects higher sales and deliveries and steady profits for 1987. **Page 26**

JAPAN'S three top property companies, Mitsui Real Estate, Mitsubishi Estate and Sumitomo Realty, reported sharp increases in profit in six months to September, thanks to booming market conditions. **Page 27**

CIGNA, one of the largest US insurance companies, has divested from South Africa by selling its interests to local management and staff for an undisclosed sum. **Page 27**

ROYAL Bank of Canada is negotiating again with Dominion Securities, the country's largest investment dealer, with a view to taking effective control. **Page 25**

US pledges to cut budget deficit by at least $23bn

BY STEWART FLEMING IN WASHINGTON AND QUENTIN PEEL IN BRUSSELS

PRESIDENT Ronald Reagan yesterday gave a cautious assessment of the outlook for a budget deficit reduction package. He said he was determined to achieve "at least $23bn" in savings and that he was "confident we will get there one way or another."

In Brussels, EC finance ministers were also cautious in promising to stimulate growth in the European Community, provided there was a "substantial" revision of the US budget deficit.

Mr Reagan took a tough stance in a speech delivered to the American Council of Life Insurance in Washington, shortly after White House and Congressional negotiators had reassembled on Capitol Hill to renew their efforts to reach a deficit reduction accord.

He restated his opposition to tax increases and warned against the trade bill currently before Congress, which he called "economic dynamite." Mr Reagan once again put the blame on Congress for the huge budget deficit which the independent Congressional Budget Office yesterday predicted would rise from $148bn to $179.3bn in the current fiscal year.

The President's more tentative view of the possibilities for deficit reduction took markets by surprise. Negotiators have been expressing confidence in the prospects for reaching an accord later this week and avoiding the automatic spending cuts which will be triggered on Friday if no agreement is reached.

Congressman Bill Gray, chairman of the House Budget Committee, emphasised the hurdles still to be cleared, saying as he entered yesterday morning's session that getting an agreement would be "rough."

Mr Gray said the problem was to find a "missing link" in budget savings. Senator Bob Packwood, a Republican, said later: "We're about $2bn short."

As the talks go on, attention is focusing increasingly on making the savings in the social security system.

In a bid to reassure the financial markets, Mr Reagan stressed that it is not American policy "to drive down the dollar. Exchange rates that whip around with every shift in the wind make business reluctant to sail the seas of international commerce."

"But enduring calmness on the currency markets must come from better co-ordination of economic polices among the major industrial countries. And that's why I was pleased by the recent action taken by Germany and other countries to lower interest rates. Co-ordination of policies that produce growth - that's good for everyone and something the US continues to support."

However, there were conflicting signals from Mr Gerhard Stoltenberg, the West German Finance Minister, about the extent to which he was willing to take positive action to stimulate his own economy.

Mr Nigel Lawson, the British Chancellor of the Exchequer, said he believed that West Germany "could do more" to promote economic growth. "I think it is a concern shared by the West German Government," he added.

At the same time he confirmed that talks were held yesterday between the four European

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West Germany and Japan urged to act

British Prime Minister Margaret Thatcher last night urged West Germany and Japan to expand their economies in line with any cut in the US budget deficit in order to avoid the risk of recession. In a speech in London, she placed as much emphasis on action by surplus countries as on that by the US. Her remarks represented a shift from recent comments. Page 24.

Fears over US tax policy depress shares and dollar

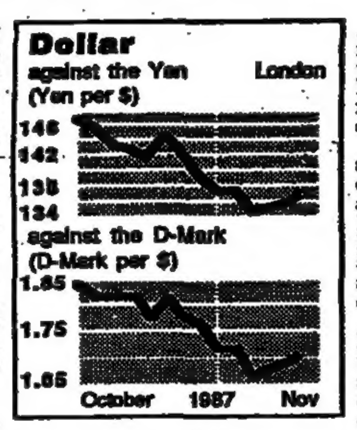
BY JANET BUSH IN NEW YORK AND SIMON HOLBERTON IN LONDON

SHARE PRICES and the dollar came under renewed selling pressure yesterday as financial markets retreated on comments by President Ronald Reagan that increasing taxes would be the wrong way to reduce the US budget deficit.

Share markets in London and New York were trading well before Mr Reagan made his remarks in a speech to the American Council of Life Insurance. The dollar, which had been boosted by the President's prediction at the weekend that a cut in the deficit of up to $80bn could be achievable over two years, sagged in late London and early New York trading.

The markets were further concerned by Mr Reagan's statement that he was determined to achieve a reduction in the deficit of at least $23bn. Analysts said the Gramm-Rudman-Hollings deficit reduction law provides for this as a matter of law.

In London, the FT-SE 100 share index closed 6.4 points up at 1,684.7, having been more than 50 points higher during the day. A confident early rally on Wall Street, which took the Dow Jones Industrial Average up by more than 30 points within the first half-hour of trading, faltered after Mr Reagan's comments. By early afternoon, the Dow index stood around 15 points higher at around 1,950.



"These swings in prices do indicate just how fragile the recovery is and how susceptible the market is to disappointments," said one London analyst.

Mr Reagan's remarks came at a time when there were signs that European finance ministers would begin to reassert their authority over financial markets. In Brussels, the European Commission reaffirmed its committment to existing exchange rate parities within the European Monetary System's exchange rate mechanism, and to a stable dollar.

The dollar, which had traded as high as DM1.7175 in European dealing, lost 1½ pfennigs and almost one yen by the close in London. Currency traders in New York remained sceptical and nervous about prospects for an early accord on the US budget deficit.

Currency dealers said US markets were more pessimistic about the current deficit talks than seemed to be the case in other centres, partly because of a perception of deep political differences between the parties involved in the negotiations, widely reported in the US press.

In London the dollar closed at DM1.7025 compared with DM1.6880 on Friday and at Y136.50 compared with 135.90 previously.

The pound closed at $1.7515 compared with 1.7685 on Friday, and at DM2.9825 compared with DM2.9850 previously. The Bank of England's trade-weighted sterling index closed at 74.8 points compared with 75.3 points on friday.

Court ruling boosts US stance on insider trading laws

BY JAMES BUCHAN IN NEW YORK

THE US Government won a significant boost in its campaign against Wall Street insider trading yesterday when the Supreme Court upheld the key 1985 conviction of a former Wall Street Journal reporter, Mr Foster Winans.

But the ruling leaves a question mark against the main legal doctrine behind the two-year clampdown which has already led 10 people to plead guilty to insider trading.

Lawyers say the Securities and Exchange Commission and the criminal prosecutors can now proceed towards seeking indictments in two current cases, involving staff at the firms of Kidder Peabody, Goldman Sachs and Drexel Burnham Lambert.

"We can go ahead full-bore," said a jubilant Mr Gary Lynch, head of enforcement at the SEC, yesterday. But other lawyers believe that the court ruling will increase pressure in Congress for a clearer and more restricted definition of insider trading than the SEC's so-called misappropriation theory.

"The ball is in Congress's court," said Professor Alan Bromberg, a leading expert in securities law at Southern Methodist University in Dallas.

The Supreme Court yesterday upheld the convictions of Mr Winans and two other men for securities fraud and mail and wire fraud. Mr Winans, who is now 37, a second former Journal employee, Mr David Carpenter, and Mr Kenneth Felis, a stockbroker at the Wall Street firm of Kidder Peabody, were convicted in 1985 for running a stock-trading ring that relied on advance information about the Journal's investment-advice column, Heard on the Street.

Mr Winans, who was employed on the column from 1982, was sentenced to 18 months in prison and fined $5,000. The other men received smaller sentences. All the sentences were upheld on appeal in May 1986.

The Supreme Court yesterday ruled unanimously that the men were guilty of mail and wire fraud in defrauding the Journal out of valuable property, namely "the publication schedule and contents of the 'Heard' column".

But in upholding the group's conviction for breaking securities laws, the court split 4-4. Lawyers say the court split leaves lingering questions about whether illegal insider trading actually occurs except in the traditional case where a company official uses confidential information to trade.

Reagan to face attack over role in Iran arms deal

By Lionel Barber in Washington

PRESIDENT Ronald Reagan and his Administration will be sharply criticised in a report due to be published tomorrow by the Congressional committees on the Iran-Contra arms affair.

The 500-page report on the joint House-Senate panel's 11-month inquiry will deliver a further political blow to the embattled President. But Republicans have drawn up a 150-page minority view more sympathetic to Mr Reagan.

The report is not expected to contain any significant new disclosures about the secret US arms sales to Iran and the subsequent diversion of profits to the Nicaraguan Contra rebels during a Congressional ban on US military aid. Televised hearings on Capitol Hill this summer gave extensive details of the affair and represented the political high-water mark of the controversy.

The report's main thrust is likely to be that Mr Reagan was responsible for allowing the normal channels of government to be ignored by key officials, including Vice Admiral John Poindexter, then his National Security Adviser, and Lt Col Oliver North, the former White House aide. This will compound further criticism of the President's lax management style and his leadership.

Its recommendations could include calls for tighter reporting by the executive to Congress of "covert operations," the undercover work by the Central Intelligence Agency (CIA) aimed at destablising foreign governments hostile to the US.

The main contention between Democrats and Republicans was whether Mr Reagan knew of the diversion of funds to the Contras. The inquiry has been unable to resolve the issue because key documents were shredded and several witness were considered unreliable or unco-operative. Another shadowy aspects of the affair unlikely to be resolved is the role of Mr William Casey, the CIA director who died this year from brain cancer.

The Congressional report is by no means the final word on the worst foreign policy fiasco in the seven-year Reagan presidency. A grand jury is investigating the criminal aspects of the affair, and indictments are expected before the end of the year.

The Iran-Contra committee's effort to produce a bipartisan report was torpedoed by political divisions between Republicans and Democrats.

Mitterrand rejects arms allegations

BY IAN DAVIDSON IN PARIS

FRENCH PRESIDENT Francois Mitterrand last night rejected allegations that he had been negligent in not preventing illegal arms sales to Iran in 1983-86 and categorically denied that the his Socialist Party had benefited financially from these sales.

He confirmed in a radio interview that he had indeed been informed in May 1984 that the secret services suspected an illegal arms trade with Iran, saying that he had shortly afterwards spoken about it to Mr Charles Hernu, who was then Defence Minister.

"The Constitution has not given me the task of checking up on the permits of arms exports," he added. So long as the competent authorities did not come back to him with further evidence of illegal sales, "then I am entirely justified in thinking that the rule which I laid down was no longer being broken," he said.

As for the allegations widely put forward in the conservative press - that the Socialist Party had received large commissions from the sales to Iran - President Mitterrand said he would put his *hand in the fire to deny it.* He said that the way in which the ostensibly secret Barba Report on the arms scandal had been leaked to discredit the Socialist Party was itself an immense moral scandal.

At the same time, he called on the conservative Government to table immediately legislation to regulate the finances of the political parties and to place a ceiling on election expenses.

He was prepared, if necessary, to agree to a special parliamentary session in January. This would be in order to complete the necessary legislation before the presidential election, "so as to be able to finish, once and for all, with this question which has poisoned the life of the Republic for a hundred years."

Reuter adds: The secret report, leaked two weeks ago, said the arms sales comprised half a million artillery shells between 1983 and 1986 under the previous Socialist Government.

To get round the arms embargo, export licences were made out to other countries with the knowledge of Defence Ministry officials, according to the report compiled by armed forces *inspector-general Jean-Francois Barba.*

Holmes a Court sells Fairfax stake

BY DAVID WALLER IN LONDON

MR ROBERT Holmes a Court, the Australian entrepreneur whose business empire has been most savagely hit in the month since "Black Monday", yesterday took further steps to ease his financial difficulties with the disposal of his 8.8 per cent holding in John Fairfax Ltd., the Australian media group.

The sale of the shares by J.N. Taylor Holdings, an investment vehicle controlled by the Bell Group, 45 per cent owned by his family, raised A$225m ($154m) in cash. It follows only days after Friday's disposal of a portfolio of business properties in Perth for A$206m.

Together, the two disposals will help Mr Holmes a Court's parlous cash position. A series of acquisitions in the run-up to the market crash had left the Bell Group with borrowings approaching $A2bn and an annual interest bill of an estimated A$280m.

Assets consisted mainly of stakes in quoted companies such as Sears, the UK retail giant, and Texaco, the oil major, the value of which plummetted in line with the market as a whole. The scale of the borrowings far eclipsed the reduced asset value, and consideration of this prompted shares in Bell Group, to fall 85 per cent from their peak.

Mr Holmes a Court has sold his Fairfax shares to Tryart, a company controlled by Mr Warwick Fairfax, a 26-year-old scion of Australia's long-established publishing family.

Bell Group used its holding in Fairfax as leverage during negotiations to buy from Fairfax the Australian Financial Review and a number of other publications for a total of $A475. Bell and Fairfax issued a statement yesterday saying that this transaction was not frustrated by Mr Holmes a Court's decision to accept the cash offer.

"Although the disposals resolve Bell's short-term cash problem, the company's balance sheet must still be restored," said an analyst from Australian brokers McCaughan Dyson.

Through the many tentacles of his empire, he owns 10 per cent of Texaco; 8.2 per cent of Sears; 15 per cent of Standard Chartered Bank; 32 per cent of BHP, Australia's largest company - and 5.2 per cent of Morgan Grenfell, the UK merchant bank.

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ROMANIA PAYS THE PRICE OF CUTTING DEBTS

President Nicolae Ceausescu faces new problems after a successful crusade against foreign debts, Page 2

MINISTERS PONDER PROPOSALS FOR CURBING CEREALS PRODUCTION

EC farmers may be paid for growing less

BY QUENTIN PEEL IN BRUSSELS

FARM MINISTERS from the European Community were last night considering the outline of a plan to control European cereals production. The idea was presented here by Mr Frans Andriessen, the Agriculture Commissioner, in a new attempt to break the deadlock over Common Agricultural Policy reform.

Negotiations are expected to continue for much of this week on the Commission's proposals for budget stabilisers, measures designed to trigger price cuts and subsidy reductions for a wide range of agricultural commodities when production targets are reached.

Most observers agree that the key sector is cereals, where the cost of Community support has risen substantially in recent years and where large surpluses are forecast for the rest of the decade.

The Commission's suggestion of a "set-aside" scheme - essentially paying farmers to grow less - has been devised as a complement to the price reductions and increases in the so-called co-responsibility levy (or producer tax) which Brussels would like to impose when the European cereals harvest exceeds 155m tonnes.

The latest Andriessen plan would in practice build on the existing extensification scheme agreed earlier this year. This already applies to wine, beef and cereals, is obligatory on all member states, and involves payments by national governments to farmers who can reduce their output by 20 per cent.

Under the new scheme all arable land would now be included; Brussels would fix a minimum level of compensation so that member states would be forced to make it an attractive option; these payments could vary according to productive capacity of the land involved; the level of funds provided by Brussels could vary according to member state; and new measures would be introduced to control fraud.

"We want this to be compulsory for member states, but not compulsory for individual farmers," a Commission official emphasised last night.

Mr Andriessen's enthusiasm for a more substantial set-aside scheme was greater than some diplomats had expected. But the Commission's decision to produce an outline paper at this stage is understood to have followed intense political pressure from West Germany, which is a keen supporter of the idea.

The Andriessen plan is still somewhat bald at this stage, has not yet been discussed by a full meeting of commissioners, and could be modified or expanded as the negotiations this week. "It will start the ball rolling," one Commission official suggested last night.

Mr John Gummer, Britain's junior Farm Minister, warned that there were some member states who saw set-aside as a substitute for price cuts and other budgetary action. "We think the Commission is on the right lines but it must be a compliment to other measures."

● The Commission yesterday toughened its proposal for the oil seeds sector, calling for deeper price cuts when output thresholds are exceeded.

Andriessen: more enthusiastic than expected

Brussels tax ideas given cool reception

By Quentin Peel

EUROPEAN Community finance ministers yesterday gave a very unenthusiastic first reception to the Commission's plans for co-ordinating indirect taxation throughout the EC.

They were presented by Lord Cockfield, the Commissioner responsible for removing all barriers to internal trade, with a three-phase programme which would lead to a decision on broad tax "approximation" by the end of 1988.

However, they opted instead for a thorough study to be undertaken into the economic consequences of changes in value added tax and excise duties - a device which could well put off any decision much longer.

Among many critics, Mr Nigel Lawson, the British Chancellor of the Exchequer, was adamant that there could be no move to raise the zero rates of VAT on food, fuel and children's clothes in the UK - as promised by himself and Mrs Margaret Thatcher, the Prime Minister, during the general election campaign. He gave no pledge on zero rates on such items as books and construction.

Lord Cockfield's proposals would call into question special VAT rates outside two broad bands - from 4 to 9 per cent for socially-necessary goods and services, and from 14 to 20 per cent for all other items.

He presented his plan as a crucial part of the drive to complete a frontier-free single market in the EC by the deadline of 1992, set by the 12 heads of government.

The leading opponents of the plan, apart from the UK, are Denmark, Ireland and Luxembourg, all of whom have serious problems in changing their indirect tax rates.

Both Denmark and Ireland have very high indirect tax rates, and any drop to 20 per cent would require significant increases in other forms of direct taxation. Luxembourg has very low indirect tax rates, and relies on them to attract all forms of business from neighbouring member states.

Concern grows in Bonn at damage to export trade

BY PETER BRUCE IN BONN

IN A SHARP departure from its cheery statements immediately after last month's downturn in world stock market values, West Germany's Economics Ministry warned yesterday that the country's exports were being noticeably damaged and that overall economic development was being threatened.

A ministry statement said that "new factors," the continuing fall of the US dollar against the D-Mark, "could place a burden on overall economic development."

"Without doubt," the statement said, "at the current level of the dollar exporting would be markedly handicapped." The Government is growing alarmed as it becomes clear that although the US accounts for only 10 per cent of West German exports, West German companies making high technology or luxury products frequently rely on the US market for a much bigger percentage of their sales and in some cases for almost all of their growth.

Porsche, for example, has been forced to cut production because of falling sales in the US.

Returning to its more traditional dogged optimism the ministry insisted, though, that domestic demand was "winning the upper hand" in West Germany. Indeed, figures produced yesterday by the IFO economic institute in Munich show capacity utilisation in West German factories in the third quarter of this year still at a high 84.5 per cent.

A tax cut worth DM14bn next year would give a further push to domestic growth, the ministry claimed in an effort to calm both foreign and domestic pressure on Bonn to push home growth even faster. Its statement coincides, in fact, with fresh demonstrations of just how difficult it could be to add anything more than technical, and not political, fuel to domestic demand.

Trade unions are up in arms and threatening nationwide disruptions following an experiment to relax shopping hours in Hamburg. Last Thursday the city state's shops stayed open until 9pm, drawing more than 120,000 extra shoppers into the city centre. All West German shops normally close at 6.30pm and defenders of the system, including the large retailers, argue that no-one would shop if they opened any longer.

In another attempt to stop the liberalization of a rigid, monopolised West German market, the main postal union yesterday announced the beginning of a major campaign to prevent the Bundespost being relieved of its near total monopoly over the supply of communications equipment and services.

Differences narrow on troop cuts

By Judy Dempsey in Vienna

THE GAP is narrowing between the 23 member states of Nato and the Warsaw Pact meeting informally here to consider new ways of reducing conventional forces in Europe, according to Western diplomats.

The informal talks began last February with the aim of giving a fresh impetus to cutting conventional forces. Once the talks receive a mandate from the Conference on Security and Co-operation in Europe (CSCE), the framework in which the talks will take place, the deadlocked, 14-year-old Mutual and Balanced Force Reduction talks will be phased out.

Over the past two months, the two sides have been meeting twice a week instead of the usual once. The atmosphere has been described as "good and reasonable," with each now considering the other's draft documents on ways of reducing conventional forces.

During yesterday's meeting, Nato clarified what it regards at the objectives of talks.

In its draft document on "conventional stability," which it presented on July 27, it listed three objectives: the establishment of a stable and secure balance of conventional forces at lower levels; the elimination of disparities prejudicial to stability and security; and the elimination of the capability of launching surprise attacks and initiating large scale offensives.

"We are now understanding each other much better," a Western diplomat commented. "Both sides are working hard to come closer."

One of the more difficult issues, however, remains to be tackled. This concerns the scope of the talks. Nato insists that the new forum should focus specifically on conventional arms. The Warsaw Pact, in contrast, proposes that short-range nuclear weapons and some tactical aviation systems should be covered in the negotiations.

●The US and the Soviet Union resumed high-level talks on Monday aimed at clinching the first treaty to cut their nuclear missile arsenals in time for a superpower summit in Washington next month, Reuter reports from Geneva.

Chief negotiators for both sides said they were confident a pact to eliminate all intermediate-range nuclear missiles, more than 1,000 rockets, would be ready for signing at the December 7-10 summit.

Attempt fails at further EC steel closures

BY WILLIAM DAWKINS IN BRUSSELS

THE European Commission's attempt to encourage steelmakers in the European Community to close surplus capacity is understood to have failed to extract any extra closures.

Mr Karl-Heinz Narjes, the Industry Commissioner, will today present to a full meeting of his 16 colleagues a long-awaited report on EC steel overcapacity by an independent panel of "three wise men."

The details of the study are being kept secret until Wednesday, so that Commissioners have a chance to discuss it privately. But the report mentions no extra closures beyond the 15m tonnes or so already agreed by Eurofer, the club of big integrated steelmakers, according to EC officials. That is around half the 30m tonnes of annual production which Brussels estimates must be shut down to bring steel capacity in line with market demand.

One of the main barriers to further capacity cuts is the West German producers' continued insistence that there is no need for the industry to make promises of capacity reductions. Because West Germany, as the largest producer, has the largest single share of steel over-capacity in the EC, its refusal to countenance plant closures has made it impossible for the three wise men to extract sacrifices from other member states.

The panel's apparent failure to crack the problem was widely expected. It increases the likelihood that the Commission will be forced to carry out its threat to scrap the seven-year-old system of output quotas at the end of the year. If Brussels does get promises of adequate cuts, it is planning to run down the quota system over three years and provide closure aids and incentives.

One diplomat said: "If they were indeed wise men, they would recommend that the quota system should end because the preconditions for it to continue are not there."

The Commission will not try to reach a final position on the steel report until its next full meeting on November 25, in good time for EC Industry Ministers to be prepared for what will be a controversial debate at their next session in early December.

FDP drops opposition to tougher protest laws

BY PETER BRUCE

MUCH to the relief of conservatives in Chancellor Helmut Kohl's West German coalition, its junior partner, the liberal Free Democratic Party (FDP), have finally agreed to support the imposition of tougher demonstration laws.

The move, agreed late on Sunday by the FDP leadership, ends years of coalition infighting on the subject and was virtually forced on the party by the fatal shooting earlier this month of two policemen by demonstrators at Frankfurt airport.

Not surprisingly, the decision was warmly greeted by the other small party in the coalition, the Bavarian Christian Social Union (CSU), led by Mr Franz Josef Strauss. He and the FDP have clashed frequently in the past three years over the latter's allegedly lax attitude towards internal security.

Sunday's decision means, mainly, that efforts to make it a criminal offence to wear a mask at a demonstration will win approval in Parliament. Masked demonstrators are common at West German protests and often lead to clashes with police.

In the past, the FDP has argued that making the wearing of masks a crime would mean that masked demonstrators even at peaceful protests would have to be arrested, thus increasing the tension at such gatherings.

However, the public outcry for tougher laws since the Frankfurt killings has been too much for the FDP to withstand. Nevertheless, its decision to drop opposition to tougher laws is understood to have been opposed strongly on Sunday by Mr Hans-Dietrich Genscher, the Bonn Foreign Minister and a former FDP party chief.

The masking controversy seems likely to scale new heights soon, as a clash threatens between hundreds of squatters in three valuable properties on Hamburg's Hafenstrasse and the city authorities.

The squatters, most of them masked, have barricaded themselves into the buildings and the city is committed to evicting them. Many newspaper reports suggest the squatters - who have become a national spectacle - are armed and that attempts to remove them by force could be bloody.

Italian coalition parties open arms to wayward Liberals

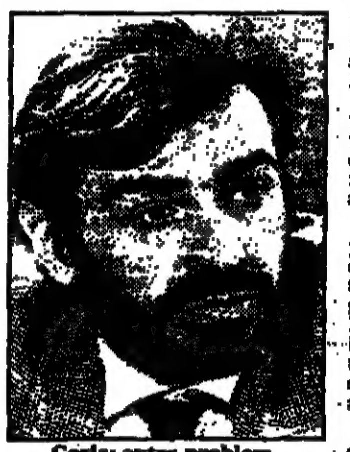
BY JOHN WYLES IN ROME

LEADERS OF the remaining four parties in the Italian coalition brought down at the weekend yesterday turned a blind eye to human error and seemed commendably ready to offer divine forgiveness to the country's wayward Liberal Party.

In consultations with President Francesco Cossiga, all said that they hoped that the Liberals would be enticed back into a newly formed five-party coalition. Both the Christian Democrats and the Socialists were flushed with loyalty towards their diminutive junior, competing for Liberal support in some future battle just as they compete for everything else.

For their part, the Liberals showed some eagerness to return from the wilderness into which they strode last Friday night when they quit the Government and prompted the resignation of the Christian Democrat Prime Minister, Mr Giovanni Goria.

Officials at the Quirinale Palace, where the President works, were too discreet last night to reveal the depth, if any, of the President's amazement. But Mr Cossiga may be allowing himself a few harsh thoughts about Liberal antics given the embarrassment he has suffered in cancelling a state visit to London which was due to start today.



Goria: extra problem

Not that a Liberal return should be taken for granted. Either tonight or tomorrow morning the President is expected to ask Mr Goria to form a second administration, and it will be up to the youthful Premier to draft a political programme acceptable both to the Liberals and the other parties.

As far as the Liberals are concerned, he will have to supply undertakings on public spending cuts whose absence from the 1988 draft budget prompted the tiny party to pull its single minister (Defence) and three under-secretaries out of the Government.

The other Liberal preoccupation - the Government's failure to honour a promise over tax cuts - was significantly missing from the party's public utterances yesterday.

Mr Bettino Craxi, the Socialist party leader, may have presented Mr Goria with an additional problem yesterday by suggesting - through Mr Claudio Martelli, his deputy and favourite public adress system - that the parties also needed to agree on the details of judicial reform and nuclear energy policy.

This could string out the process of governmental rebirth and, as ever, it was not clear whether Mr Craxi intends to exploit the situation to win what he wants on these issues or whether he is starting to play a deeper game.

●The renaissance which the Italian economy has experienced in recent years is analysed in a 12-page survey which appears today (section II). The survey was written before the latest political developments in Rome but deals largely with issues and trends which remain unaffected.

Community call on ozone

By William Dawkins in Brussels

LEADING consumer and environmental lobby groups in the European Community yesterday called on the Commission to produce an "action plan" against chemicals which endanger the ozone layer.

The Bureau of European Consumer Unions (BEUC) and the European Environmental Bureau (EEB) say the first step should be an immediate ban on the use of chlorofluorocarbons (CFCs) in aerosols. They are calling for an 85 per cent cut in the amount of CFCs put into the air over five years. This is the minimum needed to stabilise the actual concentration of CFCs in the atmosphere, they claim.

Chlorofluorocarbons are implicated in depleting the ozone layer, which filters out harmful radiation from the sun. The groups' demands are contained in a letter to Mr Stanley Clinton Davis, the Environment Commissioner. They urge Brussels to take stricter action than is laid down in a agreement signed in Montreal in September between the 30 main CFC-producing countries.

"We acknowledge that the Montreal protocol is an important first step...From an environmental point of view, however, the measures are totally inadequate," says the letter.

Under the Montreal accord, CFC consumption would be frozen at 1986 levels by 1992, followed by stepped reductions in consumption of 20 per cent and 50 per cent. BEUC and the EEB estimate that a ban on CFC in aerosols for all but essential uses would bring an instant 45-47.5 per cent cut in emissions.

"The use of CFCs in foamed plastics, refrigeration and cleaning can also be reduced considerably," leading to another drop in emissions of 31 to 35 per cent, says their letter.

A Commission official said Brussels would decide on the scientific evidence whether to ask for sharper reductions than envisaged in the Montreal accord.

Greek cabinet team begins Albania visit

By Andriana Ierodiaconou in Athens

A GREEK cabinet team led by Mr Karolos Papoulias, the Foreign Minister, begins a two-day official visit to Albania today, in a display of the warmest relations between the two Balkan neighbours since the Second World War.

Mr Papoulias was accompanied to Tirana by Ms Melina Mercouri, the Minister of Culture, and the Minister of Commerce and Public Works.

Albania's main export item to Greece is electricity; Greek exports to Albania include coal. Last year the trade balance lay heavily in Albania's favour, with exports to Greece totalling $21m against imports from Greece worth $6m.

The two countries have signed framework agreements for co-operation in banking and tourism, the latter reportedly including plans for a possible ferry link between Igoumenitsa on the western Greek mainland coast, the island of Corfu and Albania.

Portuguese budget aims for slower expansion

BY PETER WISE IN LISBON

THE LISBON Government yesterday unveiled a budget for next year which aims to slow the pace of economic expansion by restraining domestic demand but at the same time maintaining steady capital investment growth.

In the proposals presented to Parliament the budget deficit is set at Es471bn (£1.9bn), representing 8.37 per cent of gross domestic product. This is a slight decrease from the 1987 deficit which is forecast at 8.74 per cent of GDP.

The budget would show a slight surplus if the Es487.7bn cost of servicing the public debt, representing 26.2 percent of total expenditure, were discounted.

Mr Miguel Cadilhe, the Finance Minister, said that tax revenue would be increased by one percentage point of GDP in relation to 1987 as part of an effort to cut the growth of domestic demand by half to around 4 per cent next year.

He stressed that strict restraints would be placed on public spending except in areas of capital investment needed to modernise the economy. "We have to strike a careful balance between slowing the pace of economic growth and halting it altogether," the minister said.

Credit growth and foreign exchange policy would be closely harmonised with the budget to achieve GDP growth of 3.75 per cent in 1988, compared with a forecast 5 per cent this year.

An area of public expenditure has been left open so that Portugal can meet its share of investment projects funded by the European Community, the level of which will not become clear until after the EC agrees on its own budget.

Union rebels seek joint action

BY JOHN WYLES

FEARS OF legal restraints on the right to strike in Italy have prompted the first moves towards common action among the rash of rank-and-file committees whose strikes are disrupting a variety of public services.

At a weekend meeting in Rome, representatives of workers in a broad range of public services decided to try to organise demonstrations in defence of "the right to strike" on December 12.

In the meantime, further unofficial stoppages by train drivers look likely sometime this month, while domestic and some international air services will be the main casualties on most days this week. Though the official trade unions are formally leading a pay dispute with Alitalia, the national airline, rank-and-file members will again be staging unofficial stoppages in addition to union-sanctioned action designed to avoid maximum disruption.

By contrast many of the representatives of the unofficial committees of public sector employees present at the weekend meeting in Rome are presenting themselves as an alternative to orthodox unionism.

About 1,000 people attended the gathering which had been called at the initiative of the oldest rank-and-file group, the schoolteachers. Formed in 1985, this group's name, "Cobas," has become the shorthand term for describing the broader phenomenon.

Although the common thread at the meeting appeared to be severe discontent with the public sector pay deals negotiated by the unions this year, there was no clear agreement between the various groups about whether they should co-ordinate their activities.

Ankara holds returning Communists

By David Barchard in Ankara

THE TWO top leaders of the outlawed pro-Moscow Turkish United Communist Party flew back to Ankara yesterday and were arrested by police as they left their aircraft.

The arrests were the latest move in a war of nerves between Turkey's exiled Communists and Mr Turgut Ozal, the Prime Minister.

The two men, Mr Nabi Yagci, the Communist party secretary general, who uses the political alias Haydar Kutlu, and Mr Nihat Sargin, head of a small left-wing party which recently merged with the Communists, now face trial in a state security court and a possible jail sentence of up to 15 years for anti-state activities.

They were accompanied by a delegation of Communist and ecologist European Members of Parliament

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Robin Archer in Budapest reports on East-West opposition to Danube dam project

Hungarian Greens test dissident rules

FROM this summer Hungarian environmentalists have been able to apply for financial assistance from a private source: the newly formed Danube Foundation. It is a sign of the growing confidence and importance of Hungary's Greens.

Unlike most Hungarian dissident movements, environmentalism seems to have an appeal which extends beyond a small core of intellectuals. Students are the most significant source of support. When law students recently devoted a whole issue of their semi-legal in-house journal to environmental problems, it sold like hot cakes. There is also support in rural areas where environmental protection clubs have begun to appear.

By far the most important controversy centres on the construction of the Danube Dam. The Gabcikovo-Nagymaros Barrage System, as the Government prefers to call it, is a joint Hungarian-Czechoslovakian venture formally agreed in 1977. It will affect the lives of 550,000 people along a 270km stretch of the Danube.

In September 1984 a group of environmentalists formed the "Danube Circle" and have since become the first Eastern European group to win the $25,000 "Alternative Nobel Prize." The cash is being used to launch the Danube Foundation.

The group's first aim was to break the secrecy surrounding the proposed dam and draw attention to its consequences. They pointed out, for example, that the dam threatened the country's largest reservoir of drinkable water. Overuse of fertilisers and pesticides has left about 300 Hungarian villages without drinkable water.

A petition was circulated calling on the Government to halt work and carry out a detailed study. More than 7,000 people signed – a success by Hungarian standards. Not since 1956 has an independent movement openly received so much support.

The Government ordered a detailed study while officially ignoring the petition.

Prominent environmentalists followed up this success by seeking preselection in eight Budapest electoral districts in the run-up to Hungary's first multi-candidate elections. They were foiled when local party bosses packed the preselection meetings with their own supporters. Links with West German and especially Austrian Greens have also been established. The West Germans are the inspiration while the Austrians have a more direct involvement.

Last year Austrian investors became a third partner in the dam venture. A transmission line will be built linking the Hungarian and Austrian electricity grids, and the Austrians will be paid with the electricity from the dam: 12,000 megawatts a year from 1996 to 2015.

A joint Hungarian-Austrian protest was organised in Budapest and then called off after threats from the police. A bus load of Austrian Greens decided to carry on regardless and there was a minor scuffle with police.

Subsequently, 30 Hungarians placed an advertisement in the Austrian daily Die Presse calling on the Austrian public to put pressure on their Government to pull out of the dam project. They argued that the Austrian Government was taking advantage of the lack of Hungarian democracy.

Pressure from Greens stopped the construction of an Austrian version of the Danube dam. Since then, a group of Austrian members of parliament has met with members of the Danube Circle.

The dam, it seems, will still go ahead. Nevertheless, environmentalists are claiming some important achievements. Mr Ivan Baba, a leading member of the Danube Circle, stresses the broader political implications of the movement. A new area of debate has been opened up, environmental consciousness has spread rapidly and the official press has begun to write about these issues.

But, more important still, there has been what Mr Baba calls "a learning experience of organised opposition." For the first time since 1956, dissent has not been limited to an "isolated small group of intellectuals."

Mr. Baba claims they have succeeded in organising opposition "the constitutional, liberal way" in a country where that tradition has never been strong. "The masses have learned that there are ways to express dissent," he says.

It is these broader political implications which the Government most fears. Initial toleration of the environmentalists has been replaced by increasingly repressive measures.

The Government clearly feels under some pressure from the environmentalists. According to the Budapest Secretary of the Party's Patriotic Front, "the ecological movement helped raise the problem of the environment ... the Government was not doing enough." There is conflict, he says, because the environmentalists wanted to be "competitors in politics" rather than "partners in debate."

Unable to incorporate the environmentalists, the Government has resorted to what a recently leaked Central Committee document describes as "administrative measures." Passports have been withheld and one member of the Danube Circle lost his job.

However, the environmentalists remain optimistic. "The majority of Hungarians are very passive," says Mr Baba. "They believe that they have no influence. But we showed that opposition is possible. The next five to 10 years is a period of possibility." This may be over-optimistic, but it nicely captures the mood of change in Hungary today.

Airport feud threat to Gibraltar talks

BY DAVID WHITE IN MADRID

FIERCE OPPOSITION in Gibraltar to any Anglo-Spanish deal on the colony's airport overshadowed talks between senior British and Spanish officials here yesterday.

The talks are aimed at resolving the thorniest practical issue in the negotiations about the future of the Rock – the joint use of the airport.

The visit by Mr David Ratford, Assistant Undersecretary at the UK Foreign Office, was in preparation for a meeting here in two weeks' time between the foreign ministers of the UK and Spain, Sir Geoffrey Howe and Mr Francisco Fernandez Ordonez.

Both sides are looking for a breakthrough on the joint use of the airport to avoid further embarrassment when EC transport ministers meet next month to consider their air liberalisation package, held up since June because of the Gibraltar issue.

Diplomats said further talks were likely to be arranged in London next week to try to unblock the issue. It has been under discussion since Madrid and London agreed three years ago on a negotiating programme. The airport is particularly sensitive since it is on the part of the colony over which Spain considers it has the strongest sovereignty claim.

Britain is ready to introduce a system whereby passengers landing in Gibraltar on flights from Spanish airports – but not from other countries – would be able to pass directly into Spain without first checking through British customs and passport control.

It is also proposing to include a declaration making clear that neither side's position on sovereignty would be affected by such an arrangement. This is seen as serving both as a concession to Spain and as comfort for Gibraltarian opinion.

However, the proposals fall short of Spanish demands, which include a share in the running of the Royal Air Force-controlled airport. Meanwhile, the campaign in Gibraltar against concessions of any kind has crystalised since Mr Ratford's visit there last week, when a large demonstration was staged on the issue.

Mexico plans to boost public investment 10%

BY DAVID GARDNER IN MEXICO CITY

MEXICO is to increase public investment by 10 per cent in real terms next year, the first real increase since the foreign debt crisis broke in 1982.

The increase is to be paid for out of cuts in current expenditure, however, according to the outline of the 1988 budget, which is due to be presented to Congress later this week.

The basic theme of the document is continuity of policy. It is drafted to convince the public that there will be no spending binge in the last year of President Miguel de la Madrid's administration, as there was under its two predecessors in 1976 and 1982.

"There have not been and there will not be any surprises," the document says, in implicit reference to President Lopez Portillo's sudden nationalisation of the private banks in 1982, and President Echeverria's expropriation of large tracts of prime farmland in 1976, only weeks before they left office.

The presentation of next year's budget is also intended to set an austere tone for the presidential election campaign already begun by Mr Carlos Salinas de Gortari, the young former planning minister chosen to succeed President de la Madrid.

The government foresees 3.5 per cent growth next year, up from just over 1 per cent this year and the 3.8 per cent contraction induced in 1986 by the collapse in the price of oil, Mexico's main export.

Though the forecast recovery is modest given Mexico's record of average 6.6 per cent growth a year from 1940 to 1981, the Government underlines that the structure of the growth is solid, based on fiscal discipline and a marked strengthening in the balance of payments.

The public sector deficit is nonetheless forecast to grow in nominal terms to a record 18.5 per cent of GDP, up from the expected 17.4 per cent this year. However, under the definition of the "operational deficit" - net of the purely inflationary portion of interest payments, expected to total 21.4 per cent of GDP - public sector finances will, the government claims, remain in rough equilibrium.

Inflation, under this scenario, should come down to 85 per cent, against a current annualised rate of 142 per cent, though this passage of the document is analytically weak.

The government sees significant further increases in savings (to rise 12.7 per cent in real terms) and in credit to the private sector. The government monopolised around 90 per cent of all credit in the two years up to August this year.

Private investment, the government calculates, will buttress reflation, growing 14.5 per cent. The document notes that private sector imports of capital goods grew 12 per cent in September on an annualised basis.

Washington relieved at insider ruling

James Buchan on a key decision by the US Supreme Court

FOR MUCH of his professional career, Mr Foster Winans was just a mercenary foot soldier in New York's army of financial journalists, little known beyond the Wall Street Journal and the readers of its Heard on the Street investment column.

But for the past year, the disgraced former journalist has come to embody an important, if abstruse, legal doctrine which the US Government has used in its far-reaching campaign to clean up Wall Street.

The controversial 'theory' used to convict Mr Winans, known as the "misappropriation theory," went on to snare such big quarry as Mr Ivan Boesky. And when Mr Winans appealed against his conviction to the Supreme Court, and the court agreed to hear the appeal, the US Government's campaign against insider trading faltered. Ambitious cases involving three stock traders at the firms of Kidder Peabody and Goldman Sachs and staff at the junk-bond operations of Drexel Burnham Lambert looked increasingly dodgy.

Yesterday, the US Supreme Court upheld the conviction of Mr Winans and you could hear the sigh of relief all over government Washington. "We're extremely pleased," said Mr Gary Lynch, the usually cool head of enforcement at the Securities and Exchange Commission. "Misappropriation remains alive and well as a legal theory," he said.

But it may not be simple. While upholding the convictions, the court split down the middle over whether Mr Winans and his associates had broken securities law. Lawyers and securities law experts, such as Prof Alan Bromberg of Southern Methodist University in Dallas, believe that Congressional pressure can only increase to force on the SEC a clearer definition of insider trading.

Mr Winans, who is now 37, and another Journal employee, Mr David Carpenter, as well as Mr Kenneth Felis, a broker at Kidder Peabody, were convicted in 1985 for running a stock-trading ring that relied on advance information about the Heard on the Street column. Mr Winans was convicted of mail fraud and securities fraud and was sentenced to 18 months in prison and a $5,000 fine, while the two other men received smaller sentences. A federal appeals court upheld the convictions in May 1986.

The convictions were a triumph for the prosecutors, because they allowed the SEC and criminal prosecutors to expand the definition of insider trading. Up to that point, most people convicted of insider trading were corporate officers using or passing on information about their companies. But if courts would convict a journalist, it was that much easier for the US government to argue that a stock trader or an investment banker was stealing or "misappropriating" confidential inside information. Without Winans, there might, conceivably, have been no Boesky. Yesterday, the Supreme Court ruled unanimously that Mr Winans and his friends were guilty of mail and wire fraud by defrauding the Journal of its "property."

"The object of the scheme was to take the Journal's confidential business information - the publication schedule and contents of the "Heard" column - and its intangible nature does not make it any less 'property,' protected by the mail and wire fraud statutes," the court ruled.

But the court split 4-4 on the securities fraud convictions. "They got a slap in the face," says Prof Bromberg. "Half the court says that there is no ground to their screw-ball theory. The SEC and the criminal prosecutors will need to expand their indictments beyond misappropriation."

Car makers raise US production

A SURGE in the annual rate of car assembly pushed October US industrial production up 0.8 per cent after a flat September, the Federal Reserve Board said yesterday, Reuter reports from Washington.

New cars were assembled at a rate of 7.3m units a year last month, well up from the 6m rate in August and September, as car makers began production of 1988 models.

Industrial production was 5.1 per cent higher in October than a year ago.

The White House welcomed the figures. "This steady increase in industrial production bodes well for the underlying strength of the economy and for future growth," said White House spokesman Mr Marlin Fitzwater.

Analysts noted that figures were largely compiled before the stock market crash of October 19. They showed strong economic momentum before the stock market losses, but did not reflect the impact of the subsequent loss of consumer and investor wealth, analysts said.

Peru lifts oil and mines profit rule

By Barbara Durr in Lima

PERU has lifted its prohibition on remitting profits for US companies involved in oil and mining.

The decision, affecting Occidental Petroleum of Peru and Southern Peru Copper, is an attempt to reverse declines in oil production, and oil and mining exports, Peru's two most important industries.

Mr Charles Preble, chief of Southern Peru Copper in Lima, welcomed the move saying "It's a very positive step towards creating a much better environment."

In August 1985, Peru stopped profit remittances and dividend royalties payments for all foreign companies for 24 months. The move aimed to husband the country's declining foreign exchange reserves.

The shift in policy covers only those companies that have special contracts with the Peruvian Government, the case of Occidental and Southern.

The Government said the exception for the two firms was an effort to encourage investment in oil and mineral exploration, which has significantly fallen. Oil reserves are down to 485m barrels from a peak of 835m barrels in 1982.

Stewart Fleming reports on a new level of intensity in the bitter political struggles on Capitol Hill

Wright sets out to challenge the President's agenda

There was no mistaking the face that the television cameras caught peering down on the street from the rooms of Mr Jim Wright, Speaker of the House of Representatives, last Thursday.

It was indeed Mr Adolfo Calero, one of the leaders of the Contra rebels in Nicaragua, soldiers who owe nothing to Mr Wright but owe their very existence to President Ronald Reagan.

There was no denying either that, in the course of that remarkable day Mr Wright, the combative former amateur boxing champion who believes that the Speaker's position is the equal of the President's, also entertained in his rooms President Daniel Ortega of Nicaragua and Mr George Shultz, the Secretary of State.

The following day Mr Wright was present at the meeting between Mr Ortega and Cardinal Obando y Bravo, the designated mediator in the Contra war, at the Vatican Embassy in Washington as President Ortega presented his ceasefire proposals to the Catholic primate of Nicaragua.

Just who invited the Cardinal to Washington and presented President Ortega with a Washington stage for his ceasefire initiative at a time when the President was explicitly refusing to deal directly with his Central American enemy, is unclear. But Mr Ortega would not have come without Mr Wright's encouragement.

No wonder then that by Saturday a dumbfounded Reagan Administration finally gave vent to its fury over this diplomatic *tour de force* by an American politician who has no special constitutional authority in the conduct of foreign policy. The Washington Post on Sunday quoted an anonymous senior Administration official describing Mr Wright as participating with President Ortega in an "unbelievable melodrama... an excerise in guerrilla theatre" that dealt "a serious setback" to the regional peace process.

For Mr Wright's initiative (the like of which, according to Rep Bob Michel, the Republican Minority leader, has not been seen in his 30 years in Washington) represents more than just another challenge to the President's widely accepted primacy in the conduct of American foreign policy.

It marks a further diminution in the authority the President is able to wield. Now, it seems, even Central American governments are bowing to Mr Wright's warnings that they had better deal with him directly for he will be in power long after Mr Reagan is gone.

It also raises again the question of the limits of congressional authority in the conduct of American foreign policy - a recurrent *leitmotif* of the American political stage.

Congress, in particular the Senate, was indeed granted special but limited powers by the Constitution, including the right to ratify treaties which will be used next year if Washington and Moscow reach an arms control agreement.

But a 1936 Supreme Court ruling enshrines the conventional view Americans have of who runs foreign policy. It said that the President has a "very delicate plenary and exclusive power...as the sole organ of the federal government in the field of international relations...to speak or listen as the representative of the nation."

How is it then that today Mr Reagan's conduct of foreign policy is under such attack? For this is not the first successful congressional assault on a foreign policy priority to which President Reagan and his conservative ideologues have an emotional attachment.

To the dismay of conservatives such as departing Defence Secretary Caspar Weinberger, the President's top aides have conceded that the US will not press ahead with the Strategic Defence Initiative in ways which will undermine the crucial 1972 Anti-Ballistic Missile Treaty, a concession Mr Reagan has yet to approve.

Mr Reagan's credibility as a foreign policy manager, his imminent arms control triumph notwithstanding, has long been under attack. Tomorrow the Congressional Report into the Iran/Contra arms scandal, perhaps the most devastating official condemnation of his tenure, will be published. It was the fiasco surrounding the sale of arms to Iran and the clandestine and illegal support for the Contras which finally undermined the President's public credibility on foreign policy.

But there is more to Mr Reagan's woes than this. The loss of control of the Senate in the 1986 midterm elections not only gave Senator Sam Nunn the chairmanship of the armed service committee and enhanced stature as an expert critic of US strategic policy. It laid a foundation, too, for Mr Wright, the newly elected Speaker, to pursue more effectively his ambition to set the agenda for the President's last two years in office.

A year ago Mr Wright, to the horror of many in his party, publicly announced that he favoured a tax increase as part of a budget deficit reduction compromise. This week could see Mr Wright's political foresight rewarded, for a tax increase is indeed on the agenda for the budget summit.

But if shifts in power on Capitol Hill, the Iran-Contra scandal and the approaching end of Mr Reagan's second four-year term have contributed to his embarrassments, so too has the difficulty Mr Reagan has had in adjusting to the need to compromise with more powerful political adversaries.

Nowhere has this been more evident than in the revealing battle over the Supreme Court vacancy - revealing because it has exposed the debilitating conflict between ideological conservatives and pragmatists in the Administration and the Republican Party.

It is that conflict which has prevented Mr Reagan from exploiting successfully those opportunities he has had since returning to Washington in September.

Many in Washington are rightly as concerned as political leaders in the Western alliance about the dangers inherent in Mr Reagan's weakened position and the risk that ideological conflict will weaken the President further.

Mr Wright's Central American initiative, marking as it does a new level of intensity in the partisan struggles in Washington, provides another cause for concern.

It could the harbinger of even more bitter and paralysing political conflicts ahead. If so, this would exacerbate the anxieties of those in Washington already concerned about the damage the country could suffer from the destruction of Mr Reagan's presidency.

Mr Reagan's ideological commitment helped to give his presidency its momentum when he took office. The danger now is that it will continue to contribute to its paralysis over the next 14 months.

President Reagan and the Speaker of the House of Representatives Mr Jim Wright (left) held a stormy meeting at the White House yesterday over Mr Wright's assumed role as a mediator in the Central American peace process, writes Lionel Barber in Washington.

A White House official said the meeting had been called at Mr Wright's suggestion but had failed to bridge differences.

He said the President had voiced "strong concern" about Mr Wright's decision to meet President Daniel Ortega of Nicaragua in Washington last week along with the mediator between the Nicaraguan government and the Contras, Cardinal Obando y Bravo.

Brazil takes umbrage as US twists its arm on informatics row

Ivo Dawnay reports on likely Brazilian reaction to punitive tariffs on its exports

AT LAST, the phoney war is over. For 18 months or more, talks about Brazil's protected information technology market with the US have appeared to be stonewalling.

Last week, the confrontation came with the White House announcement that punitive tariffs will be imposed on Brazilian imports following the country's ban on import licences for MS-DOS 3.3 software, sold by Microsoft of the US, on the grounds that local producers are marketing an equivalent.

It is only the second time that the US has actually wielded the formidable stick of its trade legislation rather than just threatened its use - Japanese microprocessors were the first victims last spring.

The Brazilians can hardly have been surprised. Earlier in the week in Washington, Mr Abreu Sodre, the Brazilian Foreign Minister, had used the meeting of the Organisation of American States to appeal to Mr George Schultz, US Secretary of State, to *postpone action and await* appeals in the Brazilian courts.

Mr Schultz, it is reported, regretfully replied that not even his formidable influence could counter the anger of the lobbies now pressuring the president.

The root cause of this fury lies in a widespread sense of treachery in the US over Brazil's alleged failure to comply with an earlier armistice. In June, talks in Mexico City between Mr Clayton Yeutter, US Trade Representative, and Ambassador Paulo Tarso Flecha de Lima, had seemed to defuse the row.

Brasilia's claim that the sector qualified under the General Agreement on Tariffs and Trade as a "nascent industry" was reluctantly accepted by the US, which then won a wide range of undertakings.

These included promises from the Brazilians on new appeals *procedures in the case of bans on* import licences for software and hardware, guarantees of "transparency" in legislation and the use of objective judgments in disputes over whether or not genuine national equivalents - the criterion for protection against competitive US products existed.

From the US viewpoint, the deal was just enough to warrant lifting threatened retaliatory action under the punitive Article 301 of the US Trade Act.

But in September Brasilia's Special Informatics Secretariat (SEI), the highly-nationalistic agency charged with enforcing the trade barriers, unilaterally banned the Microsoft programme on the grounds that a local producer, Scopus, was marketing an equivalent.

The US industry challenges the claim that Scopus's less-sophisticated Sisne 3.0 product is an equivalent. But for the US negotiators there is a more important point of principle.

"The question of equivalency is a subsidiary issue for us when put alongside the fact that objective criteria were not applied," an US official said. "SEI decided this unilaterally and imposed its decision without allowing an independent third party to adjudicate."

Despite the US action, some *days remain before the level of* hostilities can be assessed.

After public enquiries involving representations by US industries damaged by Brazilian imports or threatened by retaliation, Washington will announce which products face punitive tariffs. The choice may be crucial to whether Brazil bows to the pressure.

In the meantime, Brazil's political establishment appears divided on a response. The Itamarati - the Brazilian Foreign Affairs Ministry - appears anxious to halt the trade war. This could just be achieved if President Jose Sarney can be persuaded to press his cabinet to overturn SEI's action.

But Mr Sarney is now enormously weakened by votes in Congress to cut his powers and reduce his mandate. Furthermore, the US action has already provoked a new surge of atavistic nationalism among politicians, many of whom are now jockeying for support in a race for the presidency.

The most promising political lever for the US must be the response of those Brazilian industries most likely to be hit by US tariffs. With the trade balance heavily in Brazil's favour - exports of $6.2bn last year against imports from the US of $3.2bn - the country is vulnerable to arm-twisting.

Key targets are likely to be the footwear industry, which exported $1.03bn to the US last year, civil aircraft from the state-owned company, Embraer, ferro-silicon and steel products.

If the US chooses carefully, it could catch the Government in a formidable protest from both the private and public sectors. Moreover, the protectionist strategy for information technology is no longer as popular as it was among Brazilian industrialists, many of whom have publicly protested against paying up to three times the world market price for goods often three years or more out of date.

Logically, therefore, the case for the Brazilians once again retreating from a confrontation with some new compromise looks highly persuasive. But, with an all but powerless government, widespread xenophobia and a presidential election campaign virtually under way, logic is not a commodity at a premium in Brasilia right now.

Many believe that, rather than cool the row, Brazilian politicians may opt to escalate the trade war by replying with punitive tariffs of their own. The US is ready for such a response. On *Mr Yeutter's desk, it is said, lies a* second list of target products.

Shultz: regretful

Credit agencies to review rules for aircraft sale finance

BY PETER MONTAGNON, WORLD TRADE EDITOR

LEADING export credit agencies are to begin a tentative review of international rules for financing sales of large aircraft at a meeting in Paris this week.

The review follows pressure from airlines for the permitted maturity of such financing to be extended beyond its current 12-year limit. However, export credit officials say the review is in its early stages and the announcement of changes is, at best, several months away.

The review will also cover the way in which interest rates are calculated for large aircraft loans. At present buyers pay a flat rate which includes the credit insurance premium charged by export credit agencies as well as a financing charge.

One problem in changing these rules has been a differing approach within Europe, where three agencies - Britain's Export Credits Guarantee Department, France's Coface and Hermes of Germany - provide loan guarantees in support of Airbus sales.

The UK position on maturities is one of qualified support, but France and Germany are thought to have reservations about longer-dated finance because of the relative lack of depth in their domestic capital markets.

Similarly, some agencies, including ECGD, are keen to move away from flat-rate finance as this would allow for a differentiated insurance premium which could be higher for the buyers with a lower-grade credit rating.

Others, notably Coface, are happy with the present flat rate system, since it implies a slightly higher level of financing subsidy for poorer countries.

The meeting will take place under the aegis of the Organisation for Economic Cooperation and Development which operates the so-called Consensus on export credit rates. Other topics on the agenda for four days of talks, starting today, include a review of this summer's agreement on treatment of mixed credits which involve both aid and conventional export credit.

The aim will be to endorse a final legal text of the agreement as well as to iron out some technical problems that remain with this agreement. A British proposal to end the general maturity limit on export credits to richer countries will not be presented as it is still being discussed with EC partners.

On the agenda is the unresolved issue of how to calculate the market-related reference interest rate for US dollars and Swiss francs. The rate is used to assess the implicit value of the aid component in mixed credits.

The new rules set a minimum aid proportion ranging from 30 to 50 per cent for mixed credits, which is designed to make them more expensive and discourage unfair competitive bidding for contracts.

UK may lose Turkey gas deal

BY DAVID BARCHARD IN ANKARA

A LAST-MINUTE price cut by Italgas for a contract to convert the Ankara gas network to natural gas is threatening to rob the UK of its first major civilian contract in Turkey for many years.

Three bidders have been competing for the contract to convert the Turkish capital's gas system to Soviet natural gas and until last week the front-runner appeared to be a consortium of Amec of the UK and local Kutlutas with a bid of $127m.

The second lowest price also came from a British-led consortium of Taylor Woodrow and local Gama Endustri at $165.1m.

Both British bidders are understood to have had the benefit of a substantial soft loan from the UK Government, pledged to the Ankara Gas and Electricity Authority, EGO, last week.

However, on Wednesday Italgas, the third bidder, announced that it had cut its bid to $126m, making it the lowest of the three. Its earlier price is believed to have been substantially higher.

EGO has invited all three bidders back for a further round of talks tomorrow, which is likely to be decisive.

● Turkey hopes to sign a contract this week with an Australian-led consortium to build a $1.4bn coal-fired thermal power station on the Mediterranean coast, energy industry sources said, **Reuter reports from Ankara.**

The group, led by Seapac Control Services Pty, was chosen on September 17 to build the power station.

BT wins Saudi telex order

BY DAVID THOMAS

BRITISH TELECOM has won its biggest overseas contract by clinching a three-year deal to run Saudi Arabia's telex network.

The contract, worth Riyals 161m ($43.5m) has been awarded to a joint venture between BT and the Jeddah-based Haji Abdullah Alireza & Company. BT holds 49 per cent of the joint venture, with the Saudi company owning the rest.

It represents an important breakthrough for BT which has been keen to build up its overseas business following its privatisation.

The deal, details of which are given in this week's Middle East Economic Digest Magazine ,is to manage, operate and maintain the country's telex, teletex and data network which is understood to link about 300 towns and villages. It also covers the maintenance of Saudi's telegraph network.

BT will help train Saudi personnel in the running of the network as part of the contract which comes into operation in January 1988.

● Hopes have risen of a breakthrough by Plessey, a UK electronics group, into the telecommunications equipment market of the Eastern bloc as a result of a visit of a high-ranking Soviet trade delegation to Plessey's Edge Lane factory yesterday.

The Soviet delegation, led by Mr B.L. Tolstykh, chairman of the state committee for science and technology, is understood to be particularly interested in Plessey's System X digital telephone exchange, its payphones and its microelectronics.

TWA plans Berlin flights

By Leslie Colitt in Berlin

TRANS WORLD Airlines plans to join Pan American and British Airways on the lucrative routes between West Berlin and West Germany which are reserved for Western carriers.

TWA said that, subject to approval by the three airline attaches in Bonn, the airline would begin a service next April between West Berlin and four West German cities.

Pan Am and BA have provided a service between Berlin and West Germany since the end of the Second World War. They divided their routes in the 1970s to improve earnings and serve only Stuttgart jointly.

TWA intends to begin flights between West Berlin and Frankfurt, Munich and Hamburg in competition with Pan Am and to Stuttgart which is served by Pan Am and BA. The airline admitted there was "no guarantee" its request for all routes would be approved by the Allied authorities responsible for West Berlin - the US, UK and France.

TWA said that, with 1m passengers annually, the Berlin-Frankfurt route was the largest "monopoly" market in the world. The airline entered the Berlin market last August with two daily flights between West Berlin and Brussels and connecting flights to New York. It said it had already reached the break-even point on this route.

Mr Harold Kosel, spokesman for Pan Am in West Berlin, would not comment directly on TWA's bid but said Pan Am planned to expand Pan Am Express, its new feeder service from West Berlin, which serves Innsbruck, Zurich, Basel, Strasbourg, Kiel, Dortmund and Stockholm.

Airline group eyes US stake

By Michael Donne, Aerospace Correspondent

GALILEO, the group of international airlines in which British Airways has a major stake, is negotiating to buy a minority shareholding in Covia, which runs the Apollo computer reservation system for United Air Lines of the US. Both United and Covia are subsidiaries of the US Allegis Corporation.

Galileo was set up earlier this year by British Airways, United and other airlines to link their computer reservations systems under a single umbrella software system to gain a bigger share of passenger and cargo traffic.

The group, which includes British Caledonian Airways, Austrian Airlines, Alitalia, Aer Lingus, KLM of Holland, TAP of Portugal and Swissair is talking to other potential airline members.

The plan to acquire the separate shareholding in Covia, in addition to Covia being an active participant in Galileo, was revealed in New York by Sir Colin Marshall, chief executive of BA.

The Galileo group believes that, because Covia's Apollo is one of the biggest computer reservation systems in the world, it ought to be the core of the common Galileo system.

For that reason, the group believes it would be better for Galileo to own a shareholding in Covia, in addition to Covia remaining a member of the Galileo group.

Japan seeks to improve trade links with Israel

BY ANDREW WHITLEY IN JERUSALEM

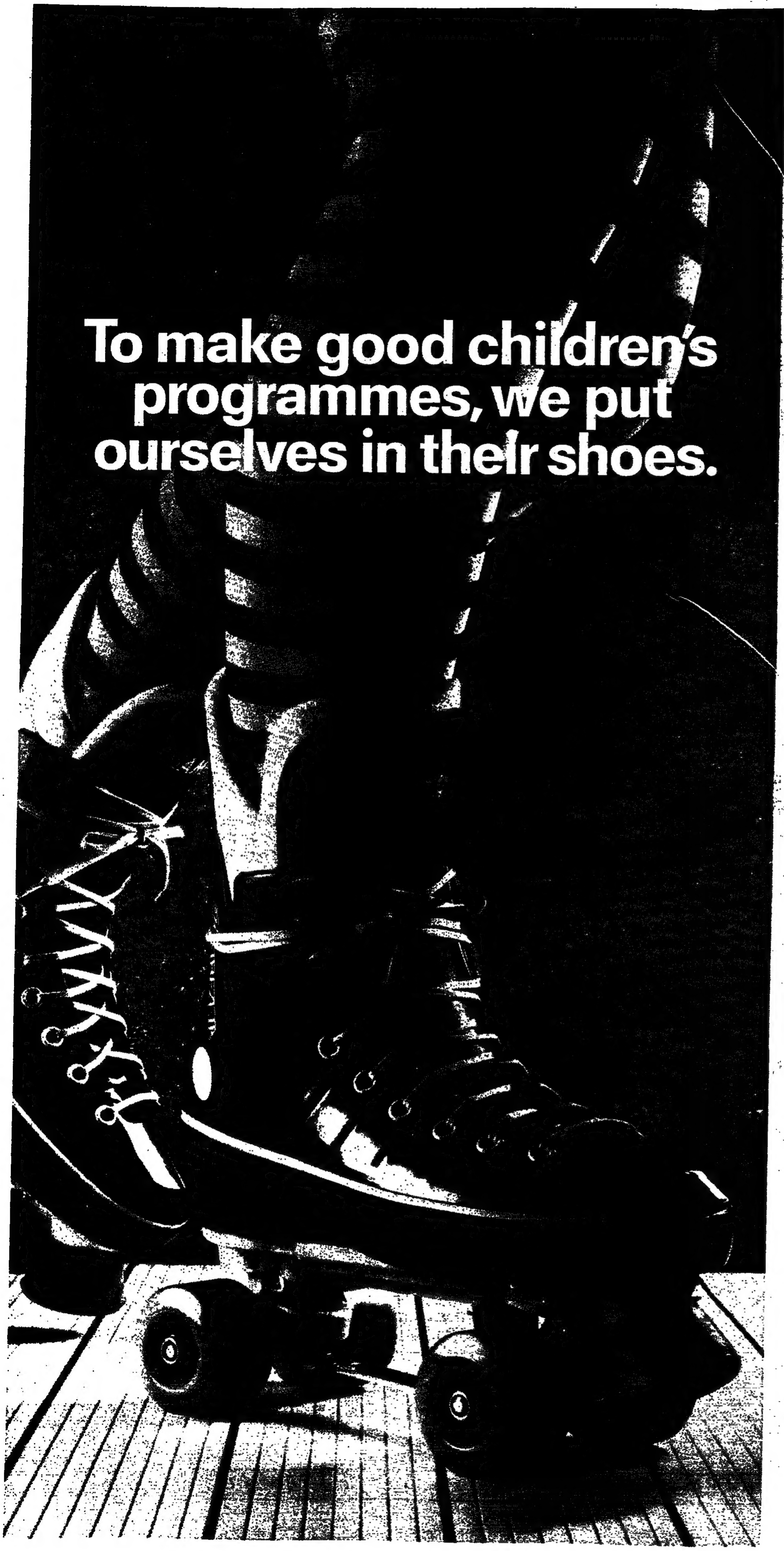
AN unprecedented visit to Israel by a top-level delegation of Japanese businessmen appears to signal a desire by Tokyo to improve low-level trade ties long blighted by Japan's concern over the Arab boycott of the Jewish state.

Headed by Mr Nihachiro Hanamura, president of the Keidanren, an umbrella body for a number of economic organisations, the delegation showed particular interest in Israeli developments in military electronics and biotechnology.

Last year, according to Japanese figures, Israel showed a surplus of $47m in its trade with Japan, exporting goods worth $322m.

Cut and polished diamonds made up the bulk of Israel's exports, followed by small quantities of chemicals and machine tools.

The business leaders met Prime Minister Yitzhak Shamir and Mr Shimon Peres, the Foreign Minister, during a four-day visit which ended on Sunday. A joint communique with the Israeli Manufacturers Association highlighted Israel's free-trade agreements with the US and the European Community as motives for Japanese interest in tie-ups.



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TVS

Arab stock market chief calls for regional bourse

BY TONY WALKER IN CAIRO

THE head of the Arab world's most developed stock market has called for the establishment of a regional bourse to encourage inter-Arab trading in securities.

Mr Hisham al-Otebi, director of Kuwait's stock market and chairman of the Union of Arab Stock Exchanges (UASE), told a seminar in Cairo yesterday that the central banks of Arab countries should contribute towards setting up a joint exchange.

Mr Otebi's call comes at a time when many Arab investors have had their fingers burned on world markets. This has prompted some to look for investment possibilities closer to home.

"What happened in world stock markets was not a crash...it corrected wrong positions as the former rise in prices was not normal," Mr Otebi was quoted as saying by Egypt's Middle East News Agency.

His call for the establishment of a regional market follows a plea by Mr Yousri Mustapha, Egypt's Economy Minister, for increased inter-Arab investment.

Mr Mustapha said $18bn was needed from the private sector to help fund Egypt's development programme in its current 1987-1992 five-year plan. "This makes it necessary," he told the seminar, "to exert more efforts to attract funds into the Egyptian market."

Mr Otebi called on Arab countries to ease restrictions on market dealings as a step towards creating a joint exchange. Arab stock markets are, by and large, still in their infancy or, as in the case of Egypt, virtually moribund.

Confidence in regional stock exchanges was rocked by the 1982 crash of Kuwait's Souk al-Manakh unofficial market which wiped $90bn off share values in several days, leaving Kuwaiti banks with debts of $15bn.

The three-day Cairo seminar was attended by the seven UASE members - Egypt, Jordan, Kuwait, Lebanon, Morocco, Sudan and Tunisia.

● **Reuter reports from Bahrain:** Bahrain has restored full diplomatic ties with Egypt, joining five other Arab states which have done so since the Arab summit in Amman last week.

A foreign ministry statement yesterday said Bahrain had taken the step to promote Arab unity.

Kuwait, Morocco, Iraq, the United Arab Emirates and North Yemen have also restored links with Cairo, broken when Egypt signed a peace treaty with Israel in 1979.

Israel fights for US to put up bigger share of missile cost

BY ANDREW WHITLEY IN JERUSALEM

ISRAEL is fighting hard to persuade the US to put up a larger share of development funds for a new anti-tactical ballistic missile to be jointly developed by the two countries. But US budget cuts being prepared could kill the project altogether.

Nominally part of the US Strategic Defence Initiative programme, the proposed weapon - codenamed Arrow Project - is urgently needed by Israel to counter Soviet-made SS-21 missiles recently delivered to Syria.

Mr Frank Carlucci, US Defence Secretary-designate, told Senate confirmation hearings in Washington on Friday that the Israeli Government was unhappy with the recent cost-sharing proposal. The Pentagon is suggesting that part of the estimated $420m development cost come out of the $1.8bn US military grant to Israel.

Earlier, Mr Yitzhak Rabin, Israel's Defence Minister, had apparently rejected out of hand the US proposal that the cost of the short-range missiles development be equally split.

The Ministry has made no secret of its wish to see the US covering 90 per cent of the costs on a project which some Israeli military experts fear could prove a heavy burden on the country's already overstrained resources.

Potential losses could far exceed those incurred on the recently cancelled Lavi combat aircraft, the daily Ha'aretz reported yesterday.

The Arrow Project is expected to be one of the items raised by Mr Yitzhak Shamir, the Prime Minister, in Washington over the next week, during talks he is due to have with President Ronald Reagan and Mr George Shultz, US Secretary of State.

Mr Shamir's visit, which begins tomorrow, coincides with the annual meetings in the US of senior Israeli and US officials on strategic co-operation.

During an appearance before the Senate Armed Forces Committee, Mr Carlucci is reported to have said he was "sympathetic" to Israeli participation, and still hoped this would be possible despite the negative reaction from Tel Aviv.

He revealed that under Washington's latest proposal, 50 per cent of development costs would come from the Pentagon and 40 per cent from Foreign Military Sales (FMS) aid, leaving 10 per cent to be funded by the Israeli Treasury.

"Apparently they still find that too burdensome because they have other needs for their FMS money," Mr Carlucci told the Senate.

Riots close Nairobi university

BY ANDREW BUCKOKE IN NAIROBI

NAIROBI'S university was closed by the authorities yesterday and the student union banned after a second day of violence at the city centre campus.

Yelling riot police with batons and shields systematically cleared dormitory buildings, and students responded with bottles and stones.

The disturbances began on Sunday when several hundred students protested over the arrest of seven newly-elected student union leaders.

Small groups of students were hustled from the buildings and beaten with batons. Riot police chased foreign correspondents, four of whom had been badly beaten on Sunday, from the scene.

The situation remained tense yesterday, with groups of students wandering around parts of the city centre near the campus, some carrying stones, until it was announced at 2pm that the university was closed indefinitely.

The students were given until 4pm to clear their belongings from the residence halls, and thousands were seen running to the buildings and returning with suitcases and bundles. The students seemed glad of a truce as the riot police established control.

It has also been announced that the Nairobi University Students' Organisation has been banned. Demonstrations by radical students, aggrieved by the country's patriarchal politics and the wealth of its elite, have resulted in university's closure several times in the last five years.

'Assault on press' storm in New Delhi

By John Elliott in New Delhi

THE Indian Government was accused in Parliament yesterday of an "assault on the freedom of the press" because it has started legal action to take over the New Delhi headquarters of the Indian Express, the country's largest circulation newspaper.

The Government claims the action has been taken because the Indian Express breached land development regulations eight years ago and has not accepted court attempts to resolve the issue.

A political storm broke out in Parliament yesterday because the Indian Express has been spearheading an attack on the government of Mr Rajiv Gandhi during the past year, and has been making allegations over a $1.4bn government gun contract.

For the past month, the main Delhi edition of the paper has been shut by a strike which Mr Arun Shourie, the editor, and opposition politicians claim has been organised by Mr Gandhi's Congress I party to take the paper off the streets.

Early in September, revenue officials raided the newspaper's offices around the country, alleging large-scale infringement of import duty and corporation tax. But critics assumed that the officials were looking for documents which could be damaging to the government.

The accusation over the Indian Express building in Bahadur Shah Zafar Marg, a newspaper and commercial centre on the borders of New and Old Delhi, is that the owners are using land and buildings for purposes other than those originally sanctioned when the land was leased to them in 1958 by the government.

Court proceedings have been in progress since 1985.

New Guinea hit by political scandals

BY JOHN MURRAY BROWN IN JAKARTA

THE MELANESIAN island of New Guinea - divided into the Indonesian province of Irian Jaya and independent Papua New Guinea - is currently reeling from the shock of two separate but related political scandals.

This week's revelations by Mr Ted Diro, a former commander of the PNG Defence Force, that he received campaign funds of $139,500 (£78,000) from General Benny Murdani, Indonesia's armed forces chief, has caused a sensation in Port Moresby, the PNG capital.

Mr Diro faces charges of corruption and perjury. Gen Murdani has denied the allegations against him.

Meanwhile, in Irian Jaya, the Indonesian half of the island, controversy surrounds the surprise resignation of Mr Isaac Hindom, the native Melanesian governor.

Among other things, he is said to have a second wife, which is forbidden for serving government officials. In Jakarta the story has attracted scurrilous press comment hard to imagine in a case affecting a Javanese.

On both counts the Indonesian Government is suspected and has been accused by some of high-handed interference.

Irianese reportedly threatened to hold a protest march in the provincial capital of Jayapura - a rare event in Indonesia. In PNG, opposition politicians have rounded on their Government labelling it a "puppet" regime of Indonesia.

Indonesia has been trying to improve relations with Melanesian neighbours throughout the region to deflect criticism of its policies in Irian Jaya and in a bid to gain a foothold in the south Pacific. The first signs of this were last year when Indonesia supported an Australian-backed motion at the United Nations calling for the independence of New Caledonia, the French-ruled Pacific island.

In the last two months the Government has been almost alone in offering assistance to the newly-formed republic in Fiji, without formally recognising the regime. The latest allegations concerning Gen Murdani, whether intended or not, seem likely to cause particular damage to bilateral relations with PNG at a sensitive moment, as both sides sit in Port Moresby to review the joint border agreement.

That accord, which was first signed in PNG last year, was ratified in March in Jakarta, with Mr Diro then deputising for the PNG Foreign Minister, and has greatly reduced tension on the 500-mile border.

In 1984 a heavy-handed riposte by Indonesian security against local separatists, prompted many thousands to flee the border into PNG. Around 10,000 Irianese refugees, some of them civil servants and teachers, remain in nine camps administered by the UN. Local concern has focused more recently on the Government's transmigration programme, which originally aimed to move about 700,000 landless peasants from other islands to Irian Jaya.

Violent opposition to the plan among the island's 1.2m inhabitants is sporadic and the migration targets have been drastically scaled back because of a shortage of funds and the logistical problems of running a project that is as far from Jakarta as Jakarta is from Perth or Hong Kong.

Mr Watanabe

A photograph accompanying an article on Japan's new cabinet in most editions of the Financial Times of Saturday, November 7, was incorrectly identified as that of Mr Michio Watanabe, the new chairman of the ruling Liberal Democratic Party's policy affairs research council. We apologise for the error.

ADVERTISEMENT

FOCUS ON SOUTHERN AFRICA

Economic interdependence is key to future of Southern Africa

In this final interview of the series, Pik Botha, Minister of Foreign Affairs, talks to John Spira, Finance Editor of the Johannesburg Sunday Star about economic interdependence in Southern Africa and related matters.

PIK BOTHA

Spira: What is your current view on the sanctions and disinvestment issue?

Botha: The imposition of sanctions against South Africa was an historical error based on a number of misconceptions and ignorance of the realities in Southern Africa. The most important misconception has been that the South African government could be coerced into acceptance of demands made from abroad in respect of a wide range of subjects — from what the outside world perceived to be the ideal political solution to the dismantling of apartheid, racial discrimination and the release of so-called political prisoners. Those who have advocated sanctions have been ignorant of the realities of the sub-continent.

I cannot comprehend the way in which governments — particularly in the western world — which should have access to the ultimate in intelligence, are able to project sanctions as being of assistance to any of our neighbouring states. It is surely not beyond the capacity of these governments to ascertain the true economic situations in countries like Mozambique, Zimbabwe, Swaziland, Botswana, Zambia, Lesotho, Angola and Malawi and then to discover just how interdependent we all are.

Each and every one of those countries are reliant on South Africa (to a greater or lesser degree) for their communications, transport infrastructure, exports and imports. Investments by South Africans in these countries run into billions.

Further, South Africa provides jobs for nearly 2 million black people from our neighbours and the frontline states and countries further afield. Some are legally here but the majority have crossed our borders and are working here illegally. It goes without saying that they take jobs away from black South Africans, since many of them are willing to work for low wages and, in some cases, merely in return for food.

Bear in mind, too, many of the foreigners working here send part of their earnings back home, implying that well in excess of 2 million foreign blacks depend solely on their South African sourced income.

My government takes decisions on carefully considered factual data and closely examines the consequences of any action it might take. It puzzles me that governments which support sanctions fail to operate in the same way.

Spira: Wouldn't you concede that the Americans, whose sanctions' initiative has been most harmful to South Africa, adopt decision-making strategies of the kind you have just outlined?

Botha: One has merely to examine the debate leading up to the US sanctions vote on South Africa to appreciate the total absence of objectivity. No attempt was made to address the consequences of sanctions for black South Africans, for our neighbouring states, for employment and for the advancement of our black people. The whole debate was conducted on an emotional plane without any reference to the true conditions in this country.

What I find worrying is that if a legislature as powerful as that of the United States, whose actions have international ramifications, can push through legislation based on emotion rather than on objective criteria, then the world faces potential hazards of frightening dimensions.

Ignore the South African issue and ask yourself how, against the background I have sketched, you would view the rationale behind United States action in the Middle East, the Persian Gulf, in Central America, in the Philippines and in the sphere of the Third World debt crisis. You would surely be concerned that a power like the US is incapable of harnessing and interpreting data rudimentary to decisions impacting on millions of human lives.

Returning to the South African context, it is clear that no cognisance was taken of the fact that sanctions were going to harm the whole sub-continent, help the extreme right and left-wing elements; and retard further reform, because sanctions encourage the advocates of violence to scare away from the conference table moderate black leaders.

Spira: Have sanctions in fact retarded the reform process and have foreign perceptions of reform altered?

Botha: Sanctions assist the radical left and the radical right. The radical left see sanctions as support for their policy of violence. The radical right claim that no matter how much reform is introduced, the Western world will not be satisfied until this country is destroyed. One must appreciate that major reforms in a South African context are often viewed as minor reforms by those living abroad — even though until recently some states in the US had laws against mixed marriages.

What many foreigners do not appreciate is the extreme right-wing opposition with which my government is faced on each occasion that additional reforms are effected — reforms such as the scrapping of legislation on mixed-marriages, black/white cohabitation, influx control (entailing the repeal of 34 proclamations) and the introduction of a single identity document for South Africans of all races.

It goes further. We have withdrawn white preference in our immigration law. All sport has been completely desegregated. We've set a firm goal of parity in education — even though it will cost the country billions. And, for the first time in South Africa's 335 year history, since last July we've had mixed executive government in the provinces, in the process abandoning the all-white provincial councils which Britain provided for in 1910.

During the recent mineworkers strike, we removed the last vestige of job reservation — in the face of severe opposition from the powerful white mine workers' union. In the past, blacks were precluded from certain jobs. No longer.

Then there are important announcements like the National Council, whereby for the first time statutory provision is made for black South Africans to serve on a national constitutional body and to help shape policy. Also, in terms of the Regional Services' Council we will now have joint responsibility at the regional level, in which black and white representatives will serve together. In future, town planners will be able to develop new open urban areas.

Spira: Why do the frontline states, obviously aware of the damage that would be inflicted on their economies by sanctions on South Africa, continue to support such sanctions?

Botha: They do so in the belief that the harm they suffer would be made good by the western world. I am convinced that the west will not offer them compensation. In effect, by supporting sanctions, western countries give rise to expectations which will not be fulfilled.

In the end, the whole sub-continent will pay the price for sanctions on South Africa.

Spira: To what extent do you expect sanctions to damage the South African economy?

Botha: They will not destroy us. But, there is no doubt that they will cause a lot of harm to millions of Africans in the Southern African region. Regrettably, by the time the sobering-up process materialises, the damage that will have been done will take longer to repair.

Even under conditions of peace and stability in Southern Africa, the region faces an arduous struggle to get its economies off the ground. It is generally accepted that Africa is dying — politically, economically and socially. Thus, under relative conditions of peace, if Africa must, in addition, be burdened by sanctions and boycotts, then the continent has no hope for the future. However, the countries south of the Limpopo are better equipped to withstand sanctions.

It is the countries and people with the least capital at their disposal and with the least resources and technological development, that pay the heaviest price — which implies that there is really no compassion for black South Africans among the advocates of sanctions.

Spira: Emotions aside, can you identify any other motivations for imposing sanctions on South Africa?

Botha: You need look no further than Australia and Canada — the sanctions' torchbearers. They produce much the same export products (minerals, metals and agricultural products) as South Africa. They hoped that by pushing South Africa out of these markets, they would benefit. In fact, this hasn't happened.

An example. When sanctions were threatened, a certain country came to us with a request that we lower the price of a commodity we traditionally sold to it. We agreed to the request. That country then went to Australia with the request that it beat the new price. Australia couldn't. Nor could it do so on other commodities without harming its own economy.

Clearly, countries like Australia will have to rethink their strategies, because if this is the way things are developing, by supporting sanctions they are pricing themselves out of the world markets.

Spira: Do you detect a softening of the stance on sanctions?

Botha: I don't like to indulge in wishful thinking but there are reasons for believing that at least in some quarters in Europe — Britain, Germany and France — people in top positions are rethinking the efficacy and wisdom of sanctions.

Spira: Do you welcome Mrs Thatcher's stand against sanctions?

Botha: Mrs Thatcher has taken a strong stand that has certainly impressed the vast majority of South Africans — both black and white. She's adopted a bold and direct attitude also on the terrorist methods of the ANC.

Spira: What has been the stumbling block to more meaningful dialogue with moderate black South African leaders?

Botha: It's difficult for them to come to the fore too openly and negotiate with us, because that is seen as a sign of weakness on their part. One of the problems is that the ANC (as it has publicly declared) does not want to share power but to seize power. This sort of policy and the tactics used to achieve its aims tend, not surprisingly, to intimidate moderate blacks.

We shall nevertheless push ahead with the process of reform. I believe that with the passage of time, black South Africans will appreciate that sanctions and external support for the ANC will have resulted in job losses; that their salaries will not be rising as rapidly as they should; and that improvements in education will be hampered thereby. When that happens, we should make greater strides towards more meaningful dialogue.

In the meantime, we'll have to sweat it out. We simply cannot, at the drop of a hat, capitulate to the demands being made upon us by those who have no interest in the future welfare of the country — demands which would rob the whites of any say in the government and offer no protection to Indian, coloured and even, black minorities.

In any event, one-man-one-vote in a unitary system is not the only way of governing democratically. There are other means of giving proper democratic rights to all our communities — systems whereby decisions are taken together on national affairs but where individual communities have the right of self-determination and feel confident that their rights are preserved. The end result depends on the political willpower of the nation's leaders and acceptance of the realities of our diversity.

Spira: What is the fundamental element in the South African government's political objectives?

Botha: Participation without domination — participation in the wealth of the country and in the decision-making process. And we have already declared that we are, in principle, ready to negotiate a new South African constitution based on power sharing in respect of all matters of national concern.

It would be encouraging if western governments supported this objective and acknowledge the major reforms that have taken place in South Africa. I cannot understand why this cannot be done.

Standards and norms are expected of us which are expected of no other African country. It's a form of reverse racism. In the rest of Africa, coups, a government-controlled press, dictatorships and nationalised business sectors go unquestioned. Not in South Africa, which, foreigners fail to realise, is not a European country. We certainly wish to uphold as many of the fundamental European rights and standards as possible but this is simply not a European country. What makes our diversity more complex is the fact that we have to deal with a first world economy and a third world economy.

But the relative freedoms and democracies that do exist in South Africa are being criticised by those wishing to destroy them and replace them with a dictatorship which would eliminate human rights.

This government can change and is changing. But we cannot succumb to demands which would inevitably destroy democracy and private enterprise.

Spira: South Africa is still being accused — particularly by Mozambique — of being a destabilising force in the Southern African region. How do you answer these accusations?

Botha: Mozambique, we all know, is in a bad way economically and the situation there is continuing to deteriorate. South Africa's interests are not served by such a situation, which is why we assist Mozambique in many ways. In addition, we're actively looking at ways and means of securing the Cahora Bassa hydro-electric project.

We've been accused of assisting the revolutionary Renamo forces in Mozambique. No one asks whether Renamo is receiving aid from Muslim countries or from individuals in European countries. Most importantly, how could the vast amount of funds required to support the Renamo forces be concealed in the South African defence budget? I know what it costs to keep the Cubans in Angola. Halve that cost in the case of Renamo and it would still be impossible for South Africa to hide so vast a sum in its budget.

We are still being accused of having engineered the Machel air disaster — even though an impartial tribunal found that the accident was, without a shadow of a doubt, the cause of pilot inefficiency.

It isn't easy to deal with a government which behaves in this way. We nevertheless continue to provide assistance to Mozambique — as we do to other neighbouring states. Examples are the Lesotho Highlands water project, and the soda-ash undertaking in Botswana.

Where's the sense in agreeing to help finance such mammoth projects and then attempting to destabilise the countries in question?

Spira: Do you regard economic reform as going hand-in-hand with political reform?

Botha: I do. Unless the economy remains sound and stable, politics will be secondary. We're well aware of this and have long ago embarked on a policy of economic as well as political reform.

We've provided incentives to create industries in decentralised areas with a view to achieving enhanced job creation; we've created the Development Bank of Southern Africa and the Small Business Development Corporation; more than half a million stands have been made available to blacks for purchase at prices as low as 200 pounds; we've deregularised the marketing of food to assist black businessmen and farmers; we're busy reforming the tax system; and we're encouraging and training black farmers, who have proved that they can produce on a par with white farmers.

Imagine how much more we could do without the burden of sanctions and the condemnation of the international community! At a time in our history when we ought to be encouraged we are punished. I will never understand this.

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OVERSEAS NEWS

HK poll protest to spread to London, Peking

By Robin Pauley, Asia Editor, in Hong Kong

HONG KONG legislators battling for the speedy introduction of direct elections to the colony's Legislative Council will spread their campaign to London and Peking next month.

The decision to lobby the British and Chinese Governments is part of a strategy which has gathered force since the Hong Kong Government published the results of two surveys of public reaction to a green paper on options for political reform prior to the return of the colony to Chinese control in 1997. A white paper containing the Government's chosen formula for reform is due in January.

The Survey Office reported that, although many people were in favour of direct elections, eventually only a minority thought they should be introduced as soon as next year. But these results and the survey methodology have aroused great controversy, the Hong Kong Statistical Society being the latest to say the surveys were fundamentally flawed.

Supporters of full direct elections in 1988 marched through the centre of Hong Kong to the Government Secretariat at the weekend. A petition was handed in, demanding that Sir David Wilson, the Governor, answer their charges of manipulation and distortion of public opinion.

The activists have now decided to raise the level of the campaign by sending two members of the Legislative Council, Mr Martin Lee and Dr Conrad Lam, to London on December 12 when they hope to put their case to Mrs Margaret Thatcher, the Prime Minister, Sir Geoffrey Howe, the Foreign Secretary, and members of the House of Commons.

On the same date two other members, Mr Desmond Lee and Mr Szeto Wah will go to Peking where a plenary session of the Basic Law Drafting Committee will be in session. This committee is drawing up proposals for the administration of Hong Kong after 1997, the Chinese having accepted a one-nation-two-systems formula under which Hong Kong's basic structures will be guaranteed for 50 years.

On December 6 a mass rally will be staged in Hong Kong in support of the widening of the campaign to London and Peking. It will be organised by the Joint Committee for the Promotion of Democratic Government, the umbrella organisation for more than 100 pressure groups which have sprung up to press for direct elections next year.

The problem for the British Government is that, although it would prefer a fully democratic electoral system to be in place by 1997, it does not wish to antagonise Peking. Deng Xiaoping, the paramount Chinese leader, has already said that Western-style elections would be unsuitable for Hong Kong as they would "not necessarily produce the correct leaders."

Chinese members of the Basic Law Drafting Committee have said that Britain failed to introduce full direct elections during its 140 years in the colony and should not rush such a system in before the committee has finished its work.

This has prompted the charge by the groups urging elections as soon as possible that sensibilities to Peking have made the Hong Kong Government a lame duck.

An uncharacteristically provocative response by Mr David Ford, the Chief Secretary, in which he said people might find themselves pulling a tiger's tail rather than dealing with a lame duck sparked another bout of controversy, causing Mr Ford to go to some length to explain that he did not mean to be so robust and was unlikely to refer to tigers again.

'Election inflation' hits South Korea

By Maggie Ford in Seoul

"TAKE the money and vote for me," the South Korean opposition presidential candidate Kim Young Sam told his supporters just after the recent holidays, when election gift-giving was at its height.

He and his fellow opposition candidate Kim Dae Jung feel they are at a grave disadvantage compared with Roh Tae Woo of the ruling party, for their access to funds is limited.

About Won 1trillion ($735m) is expected to be spent before the December presidential election in a country where pork barrel promises, Japanese-style, have formerly been helpful in obtaining votes.

Many observers believe that buying support will not work this time, but concern is mounting over the effect of "election inflation" on South Korea's economy, already suffering liquidity problems because of this year's export boom.

Officials at the Bank of Korea, the central bank, announced earlier this month that they had been unable to restrain the money supply within its target of an 18 per cent maximum increase. A 20 per cent rise was recorded last month, accompanied by a year-on-year inflation rate of 4.6 per cent. Last year's inflation rate was 2.3 per cent.

Planners have already experienced a difficult year in adjusting to a surplus rather than a deficit economy.This year's current account surplus is expected to reach $10bn, producing substantial extra funds which appear to have fuelled the recent stock market boom.

Wage rises of up to 20 per cent awarded in August following nationwide strikes have contributed to the money supply rise.

Extra election spending has taken a number of forms. Apart from gifts to voters of small items such as pens, inexpensive watches, cosmetics and food and drink, printing and publishing companies have been flooded with orders for campaign posters, calendars, pamphlets and books promoting the candidates (followed by more scurrilous books denigrating them).

Perhaps the most inflationary election-related spending relates to candidates' promises about future development. Pledges to build motorways, electrified rail services and new ports, especially in the under-developed south-west, are reported to have prompted a rush into speculative real estate buying in the hope of a quick killing when land is compulsorily purchased.

Officials' efforts to minimise the damage so far have worked better than in previous years. The rise in the money supply before the 1973 election reached 40 per cent, compared with 20 per cent the previous year and real estate speculation produced price increases of around 50 per cent compared with about 20 per cent at the moment.

The South korean economy can no doubt cope with a reasonable increase in inflation, but opposition presidential candidates are beginning to worry whether a fair election can be held after the distribution of so much largesse.

Sri Lanka's opposition leader warns of a 'drift to anarchy', reports Mervyn de Silva

Bandaranaike takes a stand on violence

MRS SIRIMAVO Bandaranaike, Sri Lanka's former prime minister, broke a long silence at the weekend on the country's political killings when she warned the Government that "what happened in the north may be repeated in the rest of the island" if the trend in political violence and the "dangerous drift to chronic unrest and anarchy" was not soon arrested.

In a signed article in the Sunday Sinhalese and English papers, Mrs Bandaranaike reminded President Junius Jayewardene that it was his duty to take the initiative against the outlawed JVP, the extremist Sinhalese party, and "the state-sponsored terrorism" of the ruling UNP.

Mrs Bandaranaike, who was recently nominated by the opposition Freedom Party (SLFP) as its presidential candidate for next year's election, is already being called "the next president of Sri Lanka" by sections of the Sinhalese press.

More and more diplomatic missions here are certainly behaving as if that could be the case. Mr Jayewardene is not entitled to a third term unless the constitution is amended by a referendum. Fearing the result, he is unlikely to choose that course. "I shall retire in a year's time," the 81-year-old President told the press recently.

Although UNP members and supporters were the principal targets of JVP violence, the SLFP did not derive any satisfaction because the attacks were a

Sirimavo Bandaranaike

"I have an impossible mission this time," said Ronnie de Mel, Sri Lanka's Finance Minister, as he finished a final round of talks with his key advisers before presenting his eleventh budget today.

Mr de Mel was referring to the tremendous pressure from his cabinet and party colleagues to offer "quick fix" remedies to help President Jayewardene's embattled 10-year regime meet the challenge of Sinhalese youth violence.

Over the weekend two more supporters, a village council member and a party organiser, were gunned down.

"If anybody is looking for a quick fix and quack remedies, he should find another finance minister," Mr de Mel said. "My budget tomorrow will be a budget for economic recovery and revival but I shall certainly bear in mind the problems of youth unemployment and rising prices."

A substantial salary rise for all categories of workers and a medium term three year economic programme to create half a million jobs for young people will be the budget's highlights.

"threat to peace, social stability and the democractic system," Mrs Bandaranaike wrote.

She blamed 10 years of UNP misrule for the emergence of youth violence in the mainly Sinhalese south. The postponement of general elections in 1982, unemployment, inflation, the creation of a party-controlled "job bank" for recruitment to state corporations and "the stench of corruption at the highest reaches of our society" had led to youth frustration and anger, she said.

In a pointed reference to the circumstances which led to the advent of the Tamil Tigers, the Tamil guerrilla group based in the north and east of the country, Mrs Bandaranaike noted that when elected leaders are "expelled from the parliamentary arena," young men seize the leadership and take to "violent paths." The Tamil United Liberation Front which won all the seats in the north in 1977 withdrew from Parliament in 1983 when the Government amended the constitution forcing the TULF MPs to take an oath disvowing separatism.

Mr Ranasinghe Premadasa, the Prime Minister, turned the argument the other way when he asked the SLFP not to encourage the JVP. What happened to the TULF could happen to the SLFP, he warned. Mr Jayewardene went further. Asked whether he included the SLFP among the JVP's allies, he said: "Not the leadership but lower down, there are links."

Mr Premadasa told Parliament last week that he had advised the cabinet to lift the ban on the JVP. Mrs Bandaranaike is reported to have discussed this point with President Jayewardene on the last occasion they met. Mr Jayewardene had said then that the security agencies had advised against it.

Mr Ronnie de Mel, the Finance Minister, who represented for many years a constituency in the deep south, the JVP stronghold, is now worried that his chances of raising about $400m at a special World Bank-sponsored meeting of donors may be wrecked by the spread of violence in the south. The aid group meeting on December 4 is likely to approve assistance for rehabilitation programmes in the ravaged north and east. In an interview Mr de Mel said: "Action in the deep south is equally urgent. Jobs is the key and that means short and medium-term projects

The Special Task Force, trained by former personnel of Britain's SAS commando group, has now moved its base to the Galle-Matara southern coastal districts, along with the Joint Operations Command.

The Government has allowed each UNP MP to have 200 armed "home guards" for their personal protection. Opposition MPs claim that "JVP suspects" are being indiscriminately arrested in massive sweeps and the homes of sympathisers burnt. Mrs Bandaranaike denounces this party militia as "short-sighted and counter-productive.

The JVP, unlike the Tamil Tigers, has no steady source of arms supplies or a rear-base. The Tigers had Tamil Nadu, the big south Indian state, separated from northern Sri Lanka by the narrow Palk Straits. But the JVP, which has dropped its Marxist trappings for an indigenous and more potent Sinhalese Buddhist militancy, draws ready support for its virulent anti-Indian propaganda in the face of the spreading violence and an incipient insurgency in the deep south.

Sri Lanka's political establishment seems to have been rudely awakened to a new and potentially more dangerous threat. The police today declared another "red alert" in Colombo, which will last a week.

Spycatcher battle moves to NZ High Court

BY DAI HAYWARD IN WELLINGTON

THE legal battle over the book Spycatcher, the memoirs of the former British MI5 officer Peter Wright, moved to the New Zealand High Court yesterday.

The British Government sought a permanent injunction preventing the Wellington morning newspaper The Dominion from publishing extracts.

It obtained an interim injunction after The Dominion published the first instalment a few months ago. Suggestions that the British Attorney-General was "stubbornly indulging in futile litigation" were completely misleading and false, said Mr Julian Miles, appearing for the Attorney-General.

The co-ordinator of New Zealand's security service would give evidence to show the "damage" distribution of the book in NZ would cause to the country's interest, Mr Miles contended.

Britain's Cabinet Secretary, Sir Robert Armstrong, will give evidence in the case, which is expected to last about eight days.

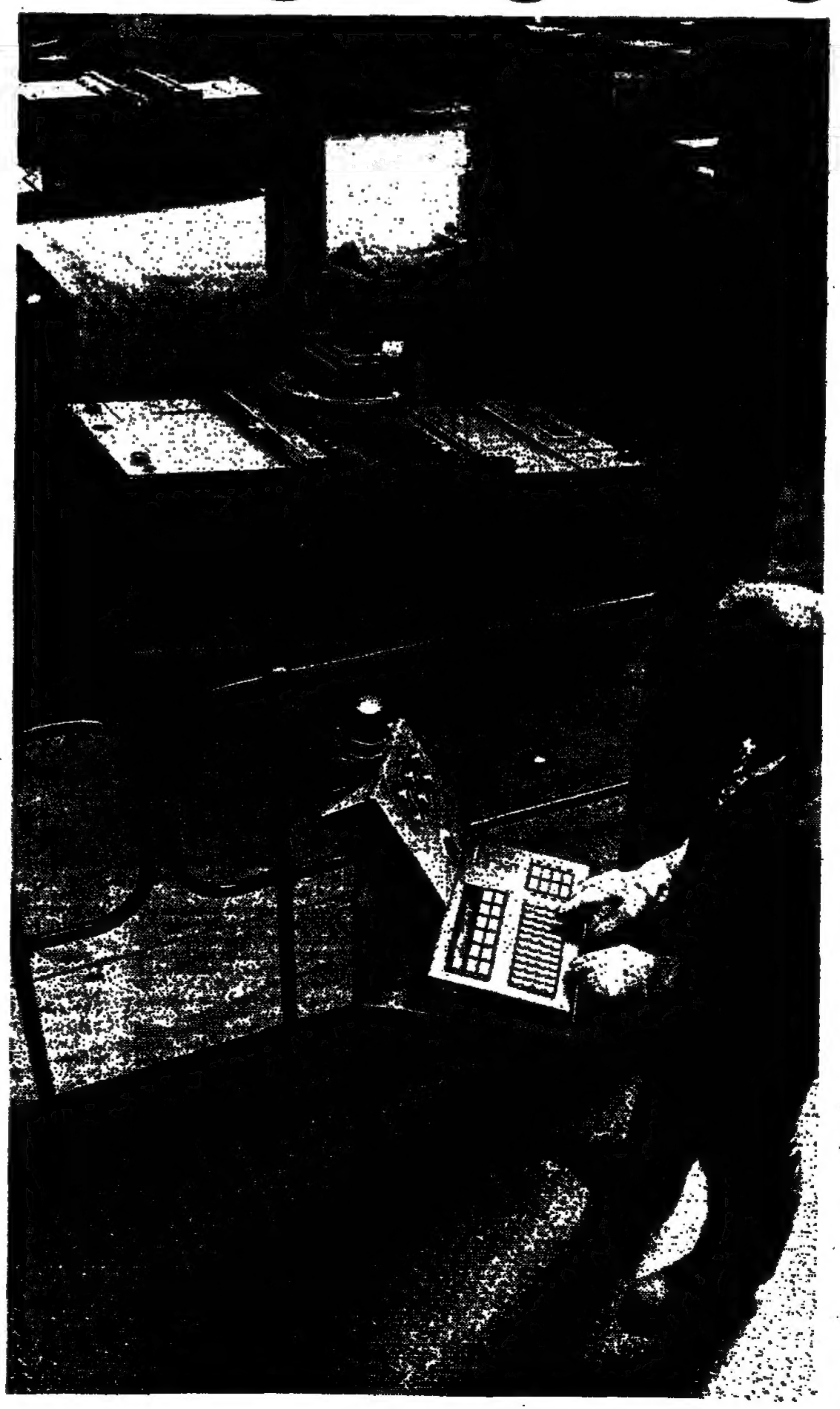
Jakarta students march

BY JOHN MURRAY BROWN IN JAKARTA

INDONESIAN students held a rare protest outside the State Parliament in Jakarta yesterday, calling on security forces to account for their handling of the riot in Sulawesi last month in which at least two people were killed.

The army's use of tanks and armoured personnel carriers to disperse the demonstration in Ujungpandang was widely seen as a deliberate show of strength by the Government in the run-up to presidential elections.

The students were objecting to the enforced wearing of motorcycle safety helmets. Yesterday students demanded an army investigation into the incident.



Coopers plans £1m drive to promote audit service

BY RICHARD WATERS

COOPERS & Lybrand, Britain's second biggest accountancy firm, plans to spend about £1m during the next month persuading people that auditing need not be boring.

Coopers' campaign, the first extensive effort by a firm to sell its auditing services since the advertising ban on accountants was lifted three years ago, threatens to provoke a rash of similar efforts from competitors.

Price Waterhouse experimented with advertising its audit services two months ago, while Peat Marwick McLintock has briefed its two agencies - Saatchi & Saatchi and Collett Dickenson Pearce - on a possible campaign should Coopers succeed in taking a larger share of the market.

Competition in the audit market has become stiffer in recent years and there have been accusations of cut-throat pricing, but auditing is still an attractive business to be in. Rising costs and falling fees have been met by extensive efficiency measures.

According to Mr Don Hanson, managing partner of Arthur Andersen, his firm's audit department has increased its productivity by 5 per cent in each of the past seven years.

Also, large firms have seen their share of this mature market grow at the expense of smaller firms. Price Waterhouse reports that the chargeable time its staff spend on auditing rose by 10 per cent in the year to 30 September.

Coopers' campaign is based on a new audit "product" designed to increase the value of an audit to clients. This involves producing a "health check" on a company's control systems and the quality of management information, as well as undertaking the usual checks to certify the annual accounts, said Mr Brian Jenkins, head of audit.

The usual letter to management at the end of an audit pointing out systems weaknesses will be replaced by a more extensive review assessing systems against best practice, he said.

Other auditors are moving in a similar direction. KPMG - the world's largest firm, which is represented in Britain by Peat Marwick McLintock - has recently introduced a systems check to its audit.

The Coopers move, which is designed to go some way towards meeting public expectations, will not cost "significantly more," Mr Jenkins said.

Coopers has made its name in recent years as the firm to have diversified most from its traditional auditing base. Its management consultancy division, with fees last year of nearly £40m, accounts for 27 per cent of its business. Its research shows that some clients think it is no longer interested in audit - and this is what prompted the campaign.

AUDIT FEES OF LARGE ACCOUNTING FIRMS (1986)*

Firm	Fees (£m)	% of total fees
Peat Marwick McLintock	134.7	65
Price Waterhouse	73.4	53
Deloitte Haskins & Sells	67.8	56
Ernst & Whinney+	66.5	n/a
Coopers & Lybrand	65.8	46
Touche Ross	53.0	57
Arthur Young	46.8	52
Arthur Andersen	33.8	37

*Includes accounting. +estimate

Source: The Accountant

Revenue blocked in £18.5m tax case

By Raymond Hughes, Law Courts Correspondent

THE INLAND Revenue has suffered a setback in its attempts to recover more than £18.5m in tax from Mr Roy Tucker, bankrupt co-founder of Rossminster, a company that devised tax avoidance schemes in the 1970s.

The Court of Appeal yesterday refused to make orders that would have enabled Mr Tucker's trustee in bankruptcy to examine his brother, Keith, who is seen as an important witness as regards Mr Roy Tucker's financial affairs.

The court allowed an appeal by Mr Keith Tucker, who lives in Belgium, against a High Court ruling that an order requiring him to come to England to be examined could be served on him in Belgium.

A cross-appeal by the trustee for an order that Mr Keith Tucker be examined in Belgium was dismissed.

Lord Justice Dillon said that the court had no jurisdiction to authorise the service of the order in Belgium, and as Mr Keith Tucker could not be compelled to submit to examination in Belgium there was no point in making the order sought by the trustee.

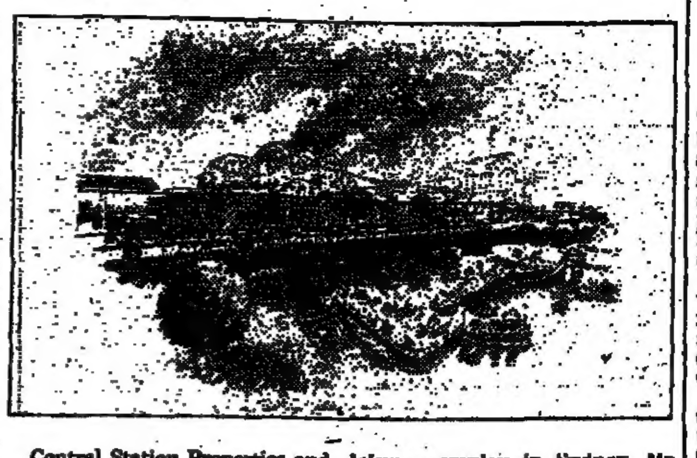
A reason for not involving the Belgian court by asking it to examine Mr Keith Tucker was that the case was a tax bankruptcy, Lord Justice Dillon said. The trustee's ultimate reason for wanting an examination must be to obtain Mr Roy Tucker's assets to satisfy the UK Revenue.

From the Belgian court's point of view that would be enforcement of a foreign revenue law and contrary to established principles of international law.

Lord Justice Dillon said that the whole history of the matter indicated a total unwillingness on Mr Keith Tucker's part to co-operate with the trustee. It could not be disputed that he was a very important witness in his brother's bankruptcy. The trustee wanted him to produce documents relating to a large number of companies, trusts and properties.

Developer chosen for central station site in Manchester

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT



PLANS to revive the heart of Manchester moved forward yesterday when Merlin International Properties was chosen to redevelop a 27-acre site adjacent to the old Central Station, now reborn as the G-Mex centre.

Merlin won a competition to be the preferred developer of a venture which could have an ultimate investment value of £100m.

The competition was organised by Central Station Properties, a company set up in 1980 by the now-defunct Greater Manchester County Council with Commercial Union Assurance funds to hold and redevelop the whole central station area. Twelve companies were invited to submit schemes.

The new project will be designed to draw tourists into a hitherto rundown area and to link up with G-Mex and the facilities provided by the renovated Midland Hotel and the Free Trade Hall. It would be linked to the Light Transit Rail system being designed for Manchester and for which EC funds have been requested.

Historic properties to be retained on the site included the longest Victorian terrace in Manchester and the listed Great Northern Warehouse.

The economic base of the scheme will be retail property, but speciality shopping will be blended with entertainment, business and housing. Detailed plans are still being worked out, but the general tone is consistent with the criteria laid down in the Manchester city centre local plan, published in 1984.

Central Station Properties and Merlin expect soon to lodge a planning application with Manchester City Council, which is anxious to see development in this area dovetailed with the core of the city.

The legal relationship between the two companies will not be defined for about six months, so that Central Station Properties can still sever its link with Merlin. The intention is to establish a subsidiary joint venture company, into which Central Station Properties will put the land and Merlin will put in the finance, design and project management.

This will be the biggest venture undertaken in the UK by Merlin, which is linked with the Hayson companies in Australia and the Rouse companies in the US. Hayson has been developing the Darling Harbour retail and leisure complex in Sydney. Mr James Rouse has been a pioneer of urban regeneration schemes based on a mixture of retail and leisure activities, starting with Baltimore.

- Merlin will announce today, with the Scottish Development Agency, the details of a speciality shopping scheme in Glasgow's Merchant City, just east of the city centre.

This follows the disclosure that City of London Group, a subsidiary of Imry International, has withdrawn from the plans for an inner city shopping centre in Glasgow, to be developed in conjunction with a concert hall.

The company said it was not prepared to make a financial commitment at the short notice demanded by Glasgow City Council.

Housing market still buoyant says survey

By Andrew Taylor

THE HOUSING market remains buoyant and most estate agents are, as yet, unaffected by the stock-market crash, according to a nationwide house-price survey published today by the Royal Institution of Chartered Surveyors.

More than 100 estate agents were asked if house prices had risen or fallen in the three months to the end of October. (Share prices began to plunge on October 19.)

The institution says prices continued to rise in the summer: for the three months to the end of October more than half the agents questioned reported rises of at least 2 per cent and just under a quarter said prices rose by 5 per cent.

It said some Greater London agents were expecting a deceleration in the rate of rises following the stock-market crash.

An agent in Newham, London, said: "Sales activity in east London is well down even allowing for the usual quiet months preceding Christmas. Prices have stabilised. In many cases asking-prices are being adjusted downwards to attract buyers. The recent uncertainty surrounding the stock-market crash will do nothing to increase confidence."

Most other London-area agents said sales in the survey period, including immediately after the stock-market fall, were steady or buoyant.

Mr Peter Miller, of the institution, said: "The fluctuations of the stock market have helped demonstrate the value of bricks and mortar as a steady and reliable investment."

Damages paid over Guinness article

Financial Times Reporter

MR MESHULAM RIKLIS, head of Schenley Industries, the US drinks conglomerate, is to be paid substantial libel damages over an article in The Daily Telegraph alleging that he had received money alleged to have been stolen from Guinness during its takeover bid for Distillers.

The damages, the amount of which was not disclosed, would be donated to charity, the High Court was told yesterday.

Mr David Eady, QC, for Mr Riklis, said that The Daily Telegraph had unreservedly withdrawn the allegation that Mr Riklis was the ultimate recipient of certain payments made by Guinness to subsidiaries of the Heron International Group which were alleged to have been stolen from Guinness.

Advertisers' institute sets up portable pension

BY ERIC SHORT, PENSIONS CORRESPONDENT

THE GROWTH in industry-wide pension schemes to meet the new pensions environment next year progressed yesterday with the Institute of Practitioners in Advertising's launch of its portable pension plan, covering the advertising industry.

Next year, under the 1986 Social Security Act, employees can opt out of the state earnings-related pension scheme (Serps) and provide their own personal pension, or stay with their employer's pension scheme.

The institute scheme is designed by consulting actuaries Clay & Partners. It aims to provide a company pension arrangement to match personal pensions, with comparable investment performance and lower expenses and without involving employers in the problems and workload of arranging a scheme.

The scheme begins next April. It will be available to all members of the institute and comes in two forms - contracted out of Serps or in addition to Serps. In both cases the accrued value of an employee's pension is fully transferable between employers in the advertising industry or to another pension scheme.

The institute scheme will be on a self-administered basis, investment and administration being contracted-out. The institute is appointing an investment manager to handle the funds on a centralised, unitised basis. Administration will be handled by Welbeck, a specialist firm.

W Midlands planning curb

BY OUR PROPERTY CORRESPONDENT

THE GOVERNMENT has told town and country planners in the West Midlands that additional large regional shopping centres of 1m sq ft or more are unlikely to be justified in the West Midlands.

There is some controversy in the region about the impact of such centres on the vitality of existing town centres when the focus of official policy is to revive jaded inner urban areas.

The government message is contained in a draft of strategic planning guidance for the West Midlands, a document that once formally approved would be the framework for planning decisions taken by the boroughs in the area.

The draft guidance is the first offered to a metropolitan county and would affect land-use planning decisions for the rest of the century.

West Midlands planners have been subject to a plethora of planning applications for large shopping centres which, if granted, could swell the total amount of retail space by about 7m square feet, or the equivalent of about 40 per cent of existing space in the nine main centres of the area.

Drivers Jonas, the surveyors, had advised the seven boroughs in the area that the potential growth in expenditure on durable goods in the area could be met by developments already under way or with planning permission. This refers to the expanding shopping centre at Dudley, controlled by Richardson Developments, and the potential centre at Sandwell to be constructed by Cameron Hall Developments.

Responding to the Government's draft guidance, Drivers Jonas thought it unlikely that other applications for big centres would win the approval of the Environment Secretary and that the developers should be considering alternative uses for their sites.

The draft guidance, however, does not totally preclude other centres. It notes that it is not the function of the planning system to inhibit retailing competition. While the existing centres will continue to be the main focus of shopping, some other development could take place, though the 1m sq ft centres are unlikely to be justified, the Government's document said.

MEPs promote barrier-free EC

Financial Times Reporter

A CAMPAIGN to sell to British industry the benefits of a "barrier-free" European Community is being spearheaded by a group of Tory Euro-MPs.

They want to help businessmen take advantage of the removal of restrictions on the movement of goods, services and people, which is intended to take effect by 1992

The campaign has won the backing of the Confederation of British Industry and the Institute of Directors, which are working with the MEPs.

UK NEWS

Spending spree continues as retail sales rise 0.8%

BY RALPH ATKINS AND LISA WOOD

BRITAIN'S retail sales grew strongly in October and more than reversed an unexpected fall in the previous month, according to official figures published yesterday.

The seasonally adjusted index of retail sales, produced by the Department of Trade and Industry, rose a provisional 0.8 per cent to a record level. In September sales fell 0.5 per cent.

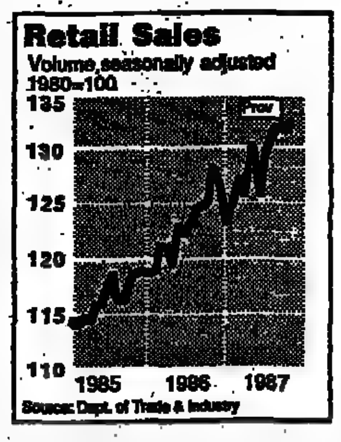
The upturn, which was slightly higher than expected by independent economists, suggests the long-running surge in high street sales is not slowing down. In the three months to October, sales were almost 3 per cent higher than the previous three months and nearly 6½ per cent above the same period last year.

The index stood at 132.9 (1980=100) in October compared with 131.8 in September and 132.5 at the previous peak in August.

Further growth is expected in the next few months as incomes continue to rise faster than inflation. Sales will also be boosted in the pre-Christmas period, by recent mortgage rate cuts and an acceleration in consumer credit.

However, October's upturn is likely to fuel worries about an increased volume of imports being sucked in to meet consumer demand. Particularly fast sales growth in the next few months could also dissuade the monetary authorities from making further cuts in the cost of borrowing.

"If we see retail sales continuing to grow strongly as they have in October, then I think we are unlikely to see further significant cuts in interest rates in the near term," said Mr Kevin Boakes, UK economist at Greenwell Montagu.



The recent slump is unlikely to have much effect on sales, as shares form only a relatively small part of consumers' wealth. However, spending patterns could alter if there is a prolonged period of uncertainty.

Mr Richard Weir, director general of the Retail Consortium said the increase was at first sight surprising, given the hurricane in the south-east in October and the downturn on the Stock Exchange.

However, he said: "While the hurricane had an impact, with people having difficulty in getting to shops, the Stock Exchange crash has made no difference to the ordinary consumer."

Food, furnishing accessories, gifts, sports clothing and equipment had sold particularly well, said Mr Weir, which suggested people were starting to shop for Christmas. "This is leading my members to believe they will have a very good Christmas," said Mr Weir.

John Lewis Partnership, with 21 department stores, recorded an increase in sales of 12 per cent on the same period last year with fashion items, men's and children's clothing performing well.

New wave of strikes hits car industry

By Jimmy Burns, Labour Staff

THE CAR industry emerged from a brief weekend recess yesterday to face another wave of industrial action unprecedented in recent years.

Production at Austin Rover's Cowley assembly plant, near Oxford, was halted yesterday as 3,500 manual workers called a 24-hour unofficial strike.

The strike, the first at the plant for three years, was in protest at the company's plans to divert funds from its pension scheme.

Austin Rover described the strike as "unconstitutional." The company said workers had staged their protest against the instructions of officials in the TGWU transport union.

Ford, meanwhile, is suffering its second consecutive week of industrial unrest, in a separate dispute over its three year wage offer which is linked to significant changes in working practices.

Yesterday 4,000 manual workers at the company's giant plant at Halewood, in the north-east of England walked out just as 600 supervisors returned to work after a five day stoppage.

TUC says job trend is against further membership growth

BY PHILIP BASSETT, LABOUR EDITOR

EMPLOYMENT trends will continue to work against the growth of trade union membership for the foreseeable future, the Trades Union Congress acknowledges in a confidential analysis of unions and the labour market.

A series of internal papers prepared by the TUC for a meeting tomorrow of its special review body on the future of trade unionism in Britain, paints a starkly realistic picture of the context for change of unions in the UK.

Among the conclusions are:

- Future employment patterns suggest poor prospects for union membership growth because of limited prospects for any major falls in unemployment, the continued fall in employment in manufacturing industry and the increase in the "largely unorganised" private service sector;
- Union membership gains in the 1970s have effectively been wiped out;
- Although employment growth has been recovering from the recession since 1982, trade union membership has by contrast continued to fall;
- Unions have been losing an annual average of 250,000 members, while the number of employees has been growing at a rate of about 150,000 a year;
- Employment growth since 1983 has been concentrated in regions where trade unionism has been weak and future population growth will tend to be in areas of relatively low union organisation and membership;
- While the TUC claims that labour market change has been more unfavourable to unions in the UK than elsewhere, the unions accept that although trade unionism internationally has held its own, this has not been the case in Britain. It recognises that the loss of membership in the UK has been on a scale "unmatched" elsewhere.

The conclusions are not necessarily new - neither are similarly graphic findings in studies for the review body on the implications for unions of economic, political and social change, and of the public's perception of trade unions. But much of it goes further than the TUC has previously gone in looking at the current state of British trade unionism.

The TUC's labour market paper concludes: "It is hard to avoid the conclusion that the growth areas in the economy will be in industries, regions and districts and among groups of workers where trade union organisation has traditionally been weak."

British unions' recent reliance on the public sector as a mainstay of union organisation is also threatened: "Measures such as privatisation and contracting out and a general tightening of local authority finances will further affect one of the remaining areas of trade union strength, the public sector."

NUM leadership battle looms

BY CHARLES LEADBEATER

MR ARTHUR SCARGILL, the National Union of Mineworkers President, seems increasingly likely to face a challenge for his position from Mr Johnny Walsh, a full-time NUM official in Yorkshire, in the union's presidential election to be held in January.

This emerged as the Yorkshire NUM's area council voted overwhelmingly to recommend that Yorkshire branches should nominate Mr Scargill for the presidency.

Mr Scargill, who was elected for life in 1981, triggered the election last week by handing in his resignation and announcing that he would seek a renewed mandate. The period for nominations closes on December 14 and the vote will follow on January 22.

Mr Walsh, speaking after the council meeting in Barnsley, Yorkshire, said he would consider standing for election if he was backed by more than one area, representing a spread of opinion in the union from both left and right-wing areas.

It is understood that area leaders in both South Wales and Scotland, have been in contact with Mr Walsh and hope to persuade their areas to support his candidacy along with the union's moderate white collar section.

Mr Walsh is widely regarded as the only candidate who could challenge Mr Scargill in Yorkshire, which holds the key to the election because it accounts for one third of the votes. In the 1984 election for the NUM's general secretary position, Mr Walsh polled 18,000 votes in Yorkshire, against 20,000 for Mr Peter Heathfield, Mr Scargill's preferred candidate.

Mr Jack Taylor, the Yorkshire area president, who recommended that the council should back Mr Scargill, said he had the ability and charisma to unify the union.

However, Mr Taylor acknowledged the election might divert the union from a set of pressing problems, including British Coal's drive for further pit closures and the introduction of flexible working.

He also warned that an election contest could damage the union's unity. He clearly distanced himself from Mr Scargill's recent attacks on the South Wales area for pursuing so-called "new realist" policies.

Employers say labour Bill is 'vindictive'

By Michael Skapinker

PROVISIONS in the new Employment Bill which prevent trade unions from disciplining members who cross picket lines will result in severe disruption to British industry, Mr John Lyons, general secretary of the Engineers and Managers Association warned yesterday.

Mr Lyons told a conference of the British Institute of Management that while some of the government's earlier trade union legislation had been "justified and salutory," the current bill "is essentially a vindictive piece of legislation."

He said that by preventing unions from disciplining members who continued to work after a legitimate ballot in favour of strike action, the bill would have two detrimental effects. The first would be an increase in "local, informal disciplinary action."

The second would be an increase in unofficial disruption, even when there had been a ballot against strike action. Encouraging a minority to defy the wishes of a majority could work both ways, he warned.

"Because this bill is unfair and unreasonable, it will, in time, bring the law into contempt. It will provoke widespread defiance," he said.

On management-union relations, Mr Lyons said that "there is no doubt that the pendulum has swung back in management's direction and much of that has been necessary and right."

But he pointed out that the Trades Union Congress still had 9m members. Hostility towards trade unions might not continue for much longer, he said.

UK NEWS

Objections to extradition fade as Ministers meet

BY OUR DUBLIN CORRESPONDENT

MR TOM KING, the Northern Ireland Secretary, sat down with Irish Ministers in Dublin yesterday to thrash out new moves to combat IRA violence in the wake of the Poppy Day bombing in Enniskillen.

The meeting of the Anglo-Irish conference was devoted to security matters. Meanwhile Mr Charles Haughey, the Irish Premier, faces a political test later this week when he is expected to unveil to his parliamentary party an extradition agreement with the UK.

Yesterday's talks centred on how operational cross-border security could be improved. One suggestion that has not been denied by Dublin is that a crack anti-terrorist police unit be established by the Irish Gardai.

Mr King was accompanied by Mr John Stanley, Minister of State, at the meeting with Mr Brian Lenihan, the Irish Foreign Minister, and Mr Gerry Collins, the Justice Minister. The Irish Police Commissioner, Mr Eamonn Doherty, and his northern counterpart, Sir John Hermon, were also present.

A terse communique confined itself to saying that the meeting had discussed key aspects of the security situation, adding that both sides were agreed on the need for a very positive response.

Charles Haughey: faces test

Before the conference Mr King paid a call on Mr Haughey at which the outline of the extradition agreement is likely to have been discussed. Parallel discussions involving law officers and officials are taking place, centring on the form of guarantees which British law officers will give when extradition warrants are being sought.

Irish objections to ratification of the Extradition Act crumbled after the Enniskillen bomb. All sides acknowledged the attack had rendered further resistance to the Act politically futile.

Fianna Fail backbenchers are uneasy about the prospect of the Extradition Act being implemented. According to one of them, Mr Hugh Byrne, the majority of party members still feel they cannot trust British justice. Some deputies are calling for prima facie evidence to be produced before a warrant is issued by the Irish authorities.

However, backbenchers are unlikely to oppose ratification in the Dail on an issue that could severely embarrass the Fianna Fail minority government.

Mr Neil Blaney, the independent republican deputy, has said he will move a Dail motion calling for repeal of the Act, but he will find it difficult to muster the support of the 10 deputies necessary to have the subject debated.

Mr Haughey has said that although he will listen to his parliamentary party, any decision on extradition is one for his government. A Cabinet meeting today will discuss the terms of any agreement and these will be unveiled at a backbench meeting tomorrow.

Mr Haughey will then address the Dail and formally sign the order ratifying the Extradition Act, unless Mr Blaney is successful in forcing a debate.

Rank to build £17m leisure complex

BY DAVID CHURCHILL, LEISURE INDUSTRIES CORRESPONDENT

THE RANK Organisation is to develop part of the garden festival park at Stoke-on-Trent, Staffs, into a £17m leisure complex, creating more than 300 jobs. The complex should be fully open in late 1989. It will be linked to a new 300,000 sq ft shopping development.

The festival was opened last year to rejuvenate derelict land in the Potteries. It was seen as a cost-efficient means to restore urban pride and boost morale, and as a short-term project.

However, Rank decided the area has potential for a leisure complex. The organisation says there are more than 1m people living within 30 minutes' travelling time.

Minister warms to sponsored television

By Raymond Snoddy

THE GOVERNMENT is moving strongly towards the introduction of sponsorship as an additional method of financing British television.

Mr Timothy Renton, the Home Office Minister responsible for broadcasting, said yesterday: "We have been unnecessarily coy in the past in this country over our approach to sponsorship."

Business organisations have become increasingly interested in being allowed to sponsor television programmes. But in practice the rules for both the BBC and independent television have been so restrictive that little programme sponsorship money has actually been raised.

"It does seem clear to us that what has been regarded as the unacceptable face of commercial broadcasting is now increasingly accepted by broadcasters as a legitimate source of funding," Mr Renton said at a lunch on sponsorship.

The Government was waiting for proposals from the broadcasting authorities and would "consider carefully all those proposals made to it by the broadcasting authorities for a change in the existing framework of legislation on sponsorship."

The Independent Broadcasting Authority has set up a working party to consider the issue. The BBC has already asked the Government for permission to allow independent producers making programmes for the corporation to use sponsorship finance. This would require a change to the BBC charter.

Mr Renton said yesterday that the Government was looking at the implications of changing the BBC's charter. "In principle we are sympathetic to the case that has been put and we are anxious to explore fully the possibility of making the change sought by the corporation," he said.

The minister made it clear that any changes would affect ITV as well as the BBC. He emphasised that any extension of sponsorship would be dependent on "transparency" - the sponsorship being apparent to the viewer and the retention of editorial control by the broadcasters.

Mr Paul Styles, director of the Independent Programme Producers Association, said that Mr Renton's speech had broken new ground. It was "clearly a green light to the BBC for discussions with independants on the possibility of sponsored programmes."

EC review of Wales criticised

By Anthony Moreton, Welsh Correspondent

THE EUROPEAN Community's recent review of regional prosperity which claimed, among other things, that Wales was as prosperous as the south-east of England was flawed in this assessment, according to the Government.

Mrs Lynda Chalker, Foreign Minister, has told the European Commission in Brussels that the report was based on out-of-date information and incorrectly extrapolated.

She has told the Welsh Counties Committee, which co-ordinates economic policy among the eight Welsh counties, that there were bound to be changes in the European Regional Fund following the accession of Spain and Portugal to the community. But the Government's aim was "to ensure that all the EC funds continue to be an effective adjunct to our own assistance to the regions and to the unemployed."

Mrs Chalker's comments, made in a letter to the committee, follows a meeting between Mr Ray Owen, its chairman, and community officials in Brussels when Mr Owen claimed that the commission's third periodic report on regional policy gave "a totally false impression of the relative prosperity of Wales."

The report proposes to reform the regional, social and agricultural guidance funds to concentrate resources on the community's "very poorest areas," under which only Northern Ireland in the UK would qualify.

● The Welsh Office has awarded a £10m contract for a three-mile bypass of Northop in North Wales to ARC Construction.

Work will start before the end of the year and should be completed by the autumn of 1989.

David Brindle on the review of a training network

Skillcentres fight for their life

TO MANY employers, Skillcentres have the image of barrack-like 1940s factories training rank upon rank of centre lathe operators for a non-existent local machine tool industry.

There will thus be considerable acclaim for the Government's announcement of an immediate review of the Skills Training Agency, the Skillcentre network, with the heavy implication that ministers believe the 60 remaining centres have had their day.

But the Skillcentres' friends and defenders - of whom there are many who will make their voices well heard before the review is acted upon next spring - say that while allegations of out-dated, expensive training may have once been true, they no longer are.

The average Skillcentre, maintain its champions, has shaped up to the changing face of industry, has cut costs so that it is both competitive and self-financing, and is fulfilling a crucial role that neither the private sector nor further education colleges can undertake.

The Skillcentres grew out of the need to train and retrain servicemen returning from war in 1945. In 1983, they and the Manpower Service Commission's mobile training agency were grouped under the free-standing STA and charged to break even by 1986-87.

The number of Skillcentres and annexes was cut from 87 to 60 in 1985, with the total staff duly falling from 3,810 to 2,943. In 1986-87, on target, the STA made a surplus of £0.6m on income of £55.3m from the MSC and £8.4m from employers - the latter figure rising sharply from £5.6m the previous year.

That may be so, argue the critics and, indeed, the Government, but both the National Audit Office and the Commons Public Accounts Committee have in the past nine months exposed the relatively high cost of Skillcentre training.

Reports by both bodies found that the MSC's practice of purchasing fixed amounts of training at Skillcentres had incurred considerably higher costs than would have been the case at colleges or other providers. There was also a suggestion that some courses would not have been run but for a requirement to use Skillcentres.

The MSC told the Commons committee that the gap between the cost of a Skillcentre course and a college course had been narrowed from £63 in 1983-84 to £30 in 1986-87 - a disparity justified to some extent by Skillcentre courses being more capital-intensive.

Further, the MSC reported an improvement in placement in jobs of Skillcentre trainees: although there *had* been a poorer record, compared with colleges and other providers, by 1986-87 there was parity across the board at a 70 per cent success rate.

Why, then, the review? Have the Skillcentres not done everything asked of them?

One reason, say training consultants, is the great strides made by colleges in responding to industry's training needs. With numbers of school-leavers dipping because of demographic trends, the colleges are set to have even more capacity to lay on MSC and off-the-job courses.

Another reason is the growth of private-sector group training associations and training consortia, coupled with the increasingly active role in training of chambers of commerce and individual employers such as Austin Rover.

Yet there is real doubt whether either the colleges or the private sector can do all - particularly all the capital-intensive training - that Skillcentres do. "It is possible there are areas where the private sector can take over, but there are other areas that must be examined very carefully if we are not to throw the baby out with the bathwater," says Mr Kelvin Hard, human resources consultant with Coopers & Lybrand Associates.

However, there is also a strong opinion that the Skillcentres have in recent years suffered badly from uncertainty about their future.

As one observer, close to the STA network, puts it: "I think it must be all or *nothing*, either a strong long-term endorsement or total closure. Any other way is death by a thousand cuts."

Eight men jailed after plots to evade £5m tax on 'scrap' gold

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

EIGHT MEN who took part in what a judge described as "audacious conspiracies" to evade £5m in VAT were yesterday given jail sentences ranging from 18 months to seven years.

The conspiracies involved smuggling £30m of Swiss gold into the UK using a network of largely fictitious companies and sheafs of bogus invoices to enable the conspirators to pocket the VAT when they melted down the gold and sold it to unsuspecting dealers on the London market.

The gang was caught after suspicions aroused by the amount of scrap gold appearing on the London market led Customs and Excise officers to mount an investigation, codenamed "Operation Fiddler."

Judge Marcus Anwyl-Davies said at Southwark Crown Court yesterday that there had been massive conspiracies and frauds.

Once again the fair names of innocent traders in gold had been besmirched, he said. The trust of reputable traders who relied on the most simple paperwork had been cruelly exploited.

Keith Squire, a precious metal dealer said by the judge to have been a prime mover in the conspiracy, was sentenced to a total of seven years and disqualified from being a company director for 10 years. The judge also made a criminal bankruptcy order against him.

Michael Moran, said to have been another prime mover, received a total of five years and also was disqualified from being a company director for 10 years.

Philip Rock, a precious metal dealer described by the judge as a "willing lieutenant," was sentenced to three years.

Paul Moscow, a jeweller, received a total of three years' imprisonment and was disqualified from being a company director for five years.

Mitchell Hartney, unemployed, was sentenced to two years in jail.

Martin Carroll, a bullion company director, received three years' imprisonment and was disqualified from being a company director for three years.

Philip Allen, a Hatton Garden dealer described by the judge as "a professional confidence trickster," was sentenced to a total of five and a half years, including activation of a suspended sentence.

David Malkiel, an estate agent, received an 18-month sentence.

Prince gives donations advice

BY MICHAEL SKAPINKER

COMPANIES seeking to become involved in community projects must win the active co-operation of all interested parties, including voluntary organisations, local councils and trade unions, the Prince of Wales told a meeting of leading industrialists last night.

"Local people need a stake in the ownership of the scheme," he said. "Company patronage or gifts and legacies, no matter how generous, from outsiders will not have the desired benefits if the community has not been actively involved, not only in a consultative manner, but as a participant."

The Prince was speaking at the first annual meeting of the Per Cent Club, set up last December to encourage companies to become more actively involved in community projects.

Members of the club undertake to give half a per cent of their pre-tax UK profits to the community, either through donations or through participation in job-creation initiatives, education, or inner-city regeneration.

The club has attracted nearly 110 members so far. They have given about £84m to community causes this year.

Prince Charles, while cataloguing an impressive list of community projects in which companies are involved, said the amount given to charity by the business sector remained relatively low. Charitable donations by the top 200 UK companies in 1986, he said, were equivalent to 0.2 per cent of their pre-tax profits.

He said that the Per Cent Club was not designed to enter "the traditional province of the state, church or charity. It is bringing, however, a new approach of enterprise to their traditional areas of interest."

Nor were its members making an ideological or political statement. "Clearly, support for the Government's new City Technology Colleges by some members of the Per Cent Club can be construed by some as a political gesture. Whether that is true or not, it does represent a major financial commitment to education and training in particular areas of need."

Actuaries urged to give more details of funds

By Eric Short, Pensions Correspondent

ACTUARIES IN conventional life companies should be required to provide more detail about the resources of their traditional with-profits funds, a senior actuary said last night.

Mr Stewart Lyon said that the appointed actuary of a company should have a statutory duty to certify that the proposed bonus distribution would, in his opinion, be consistent with the reasonable expectations of all investors holding with-profit contracts.

Mr Lyon, a former president of the Institute of Actuaries, was addressing Scottish actuaries.

He said two main factors were putting pressure on actuaries to provide greater disclosure. The best advice requirements of the financial services legislation imposed considerable responsibilities on financial intermediaries in their recommendations.

Also the financial problems of United Kingdom Provident Institution had shown intermediaries that they could not take for granted the financial security of a conventional life company.

Mr Lyon warned of the dangers of "a bonus war." There were signs that those life companies which were finding their marketing position threatened by the application of best advice would fight by increasing their bonus rates beyond levels considered desirable.

Call to expand role of pharmacists to aid NHS

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

PROPOSALS TO expand the role of chemists' shops as the "front door of the National Health Service" were put forward by the Pharmaceutical Services Negotiating Committee yesterday.

A formal round-the-clock dispensing service enabling all patients to go to a pharmacist 24 hours a day, are among the recommendations from the committee, which represents the 10,500 NHS community pharmacy contractors in England and Wales.

An expanded role for pharmacists, says the association, would enable general practitioners to spend more time with patients and carry out minor surgery, so reducing pressure on hospitals.

"In cost terms a visit to hospital costs £60 a patient, a trip to the doctor costs £5 - to obtain the advice of your pharmacist costs the NHS nothing," says the association in a Patients' Charter, in which it sets out its proposals.

The association proposes that pharmacies should develop counselling areas where pharmacists would be able to give more confidential advice than is possible at present. Among the specific areas where it believes pharmacists can expand their services to the public are:

- Preventive medicine and tests related to factors such as weight, blood pressure and cholesterol level
- Pregnancy and fertility testing
- Work among particular groups with special needs, including the elderly, young children and the disabled
- Home visits to the housebound
- The maintenance of medication records.

Direct sales code agreed

BY DAVID CHURCHILL

BRITAIN'S direct selling industry is seeking to improve standards and give greater protection to consumers under a code of practice announced yesterday.

The Direct Selling Association, whose members are responsible for 90 per cent of all direct sales in the UK, has agreed a voluntary code of practice with the Office of Fair Trading.

This gives consumers more time to withdraw from agreements, an improved complaints procedure, and tougher curbs on companies caught breaking the code.

Direct sales of consumer goods - mainly through door-to-door selling and parties in peoples' homes - rose by 19 per cent last year and involved more than 70m transactions. About 300,000 people work in direct selling

Financial computer launched

By David Thomas

APRICOT, the Birmingham-based computer company, yesterday launched a computer system for the financial sector called Citydesk.

The system is aimed at brokers, analysts, dealers, accountants and other staff in the "front office" operations of financial institutions.

This is the first time Apricot has sold to this particular market, though the company has a successful portfolio and unit trust management software package called Quasar.

Mr Roger Foster, Apricot chief executive, claimed Citydesk was well ahead of its rivals, which include IBM, in integrating information access, communications management and personal computing in one work-station.

He said the price of Citydesk was very aggressive and argued that the stock-market crash would make financial institutions more cost-conscious when investing in information technology.

Mr Foster said the system could support a network ranging from as few as eight screens up to several hundred, but he expected the typical network to consist of 30 to 60 screens.

The Citydesk system, which Apricot is testing with several large institutions and will start shipping to customers from March 1988, can:

- accept data from all major financial information sources and distribute it to any number of people on the system.
- communicate with other mainframe, minicomputer or microcomputer systems and provide a central information store and distribution facility.
- act as a telephone management facility and communicate with "back office" systems.
- offer a fault tolerance capability and provide conventional personal computer functions.

Bankruptcies increase by 5 per cent

By Richard Waters

THE NUMBER of bankruptcies last year rose 5 per cent to 6,700, according to figures published yesterday by the Department of Trade and Industry.

The average deficiency of the bankrupts was £54,600, up £1,000 from the previous year.

The largest bankruptcy order of the year was made against Mr Arjan Singh Anand, who had gross liabilities of £85m.

His debts, in connection with personal guarantees for his companies, were exceeded by the aggregate debts of the Sethia family. Mr Indra Kumar Sethia (with gross liabilities of £25m), Mr Ranjit Singh Sethia (£14m) and Mr Sempat K Sethia (£12.4m) were among the seven people during the year who faced court orders of more than £5m.

Bankruptcy General Annual Report for the year 1986, HMSO, £3.90.

Delfont retires

LORD DELFONT is to retire as chairman of First Leisure Corporation in March, when he will be succeeded by the chairman designate, Mr M.N.F. Cottrell.

Lord Delfont will become president of the company and remain on the board.

Loganair and Dan-Air apply for BCal routes

BY JAMES BUXTON AND MICHAEL DONNE

TWO INDEPENDENT airlines are applying to the Civil Aviation Authority for licences to take over some of British Caledonian's domestic routes.

Loganair, the Glasgow-based airline, is to seek licences to replace BCal on its routes from Gatwick to Edinburgh and to Glasgow.

Dan-Air, one of Britain's leading independent airlines, has applied to the CAA for rights to take over the routes between Gatwick and Manchester and between Manchester and Aberdeen. The airline already operates services from Gatwick to Aberdeen, Belfast, Jersey and Newcastle, in addition to a number of European points.

As part of the approval which the Monopolies and Mergers Commission gave last week for the proposed merger between British Airways and BCal, BA has undertaken to surrender the BCal domestic route licences within one month of any merger with BCal becoming effective.

At present, BA is still discussing merger terms with BCal through their respective merchant banks and no formal offer has yet been made.

Mr Michael Bishop, chairman of Loganair's parent group Airlines of Britain Holdings, which includes British Midland Airways, said yesterday that Loganair's application would stand irrespective of whether the takeover by BA went ahead.

British Midland already flies between Heathrow and Glasgow and Edinburgh, so that if successful, the Airlines of Britain group would become the main competitor to BA between London and Scotland.

Mr Bishop said Loganair would operate the routes with two McDonnell Douglas DC9 jets which would be transferred from British Midland and would offer the same number of services as BCal. Its largest aircraft at present are turboprop Fokker F27 Friendships.

The Gatwick services would be administered from Glasgow, he said. If Loganair gained the licences it would increase its staff from 350 to about 450.

Mr Bishop said the application would mark a further development of Loganair, which British Midland took over in late 1983. It had already expanded from its routes to the Highlands and Islands of Scotland to services from Glasgow and Edinburgh to Manchester and Belfast. He said he believed Loganair could operate the Gatwick routes profitably because its cost structure was much lower than that of BCal. He claimed BCal lost about £2m a year on these routes.

Loganair was losing £1m a year when British Midland took it over from the Royal Bank of Scotland. In the year to March 31 1987 it made a profit of £530,000 and expected to make similar profits this year.

Although BA, if it merges with BCal, has undertaken to give up BCal's domestic licences, it retains the right to re-apply for them itself, under the terms approved by the Monopolies and Mergers Commission.

BA will have any such applications considered on a par with those of other airlines, without being able to argue any prior rights to the routes.

Arts Council to alter funding for orchestras

BY ANTONY THORNCROFT

THE ARTS Council is to change the way it funds the four main London orchestras -the London Symphony, the Royal Philharmonic, the London Philharmonic and the Philharmonia. From the start of the 1989-90 season the orchestras will be given a fixed sum per concert.

Until now the orchestras have received a grant, on average around £300,000 each year, from the Arts Council. The overall expenditure will remain the same, but it will be concentrated on 130 subsidised concerts, a fall of about 40 concerts a season. Each orchestra will receive the same amount per concert.

In effect a new type of concert, part financed by the Arts Council, will appear at the South Bank concert halls and at the Barbican. Its repertoire will be more imaginative and will involve the orchestras in extra rehearsals, preferably in the hall that the concert will be performed. Other, unsubsidised concerts by the orchestras will probably consist of more popular works.

At the end of each season the Arts Council will assess the orchestras and decide how many aided concerts it will offer each in the next year. The Arts Council's plans to concentrate its resources on just one super orchestra, or to force one of the London orchestras to go to East Anglia to become a regional orchestra, have come to nothing. The four London orchestras depend on the Arts Council for about 14 per cent of their revenue and can resist its pressure.

Last week Arts Council members met near Stratford-upon-Avon to discuss the announcement from Mr Richard Luce, Minister for the Arts, that he was planning to increase the budget for the performing arts by 17 per cent during the next three years and to introduce an element of incentive funding.

The Arts Council is drawing up incentive funding proposals, wich will split into two sections, one for the larger national companies where extra cash will be related to their ability to attract funding from business and other external sources, and one for smaller, less commercial enterprises where additional revenue will be geared towards the progress they make towards more efficient management.

EC market 'needs common standards'

By Michael Skapinker

LEARNING foreign languages is less important for British businessmen than being able to operate in a European market with common standards for goods and services, Lord Young, the Trade and Industry Secretary, told a conference of the British Institute of Management in London yesterday.

Asked by a member of his audience what the Government was doing to prepare British business for the advent of a single European market in 1992, Lord Young said: "I'm not so sure it's language that's important

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because English is becoming more and more the commercial language for most of Europe.

"Language isn't so important as long as we actually have goods and services. I will know we have a single market when I can buy a television set in London, go to Paris, plug it in, turn it on and receive a picture."

He said the creation of common standards of this sort was more important than the standardisation of tax rates proposed by Lord Cockfield, vice-president of the European Commission. He described Lord Cockfield's proposal as "nonsense" because it did not affect goods and services.

He told his audience the single market was going to happen and it would have a great influence on their businesses.

He said he had brought together a number of figures from commerce and industry to talk about how best to prepare the UK for the single market. The issue is to be discussed at a conference in April.

Lord Young congratulated British companies on the way they had responded to his call earlier in the year for a crusade to improve the quality of management education. He said that although the matter was primarily a matter for industry, his department would participate in the drive to improve management education and "give modest financial support."

●Some of the Government's planned education reforms are not up to the mark, one of its own MPs warned yesterday.

Mr Andrew Rowe, a backbencher on the "wet" side of the Tory Party, delivered his criticism in a pamphlet examining the radical measures proposed by Mr Kenneth Baker, the Education Secretary, and due to be outlined in a bill on Friday.

Mr Rowe, MP for Mid-Kent and governor of a further education college, said he was unhappy with the plan to allow schools to opt out of local education authority control

Electricity sell-off 'should start with distribution boards'

BY MAURICE SAMUELSON

FT CONFERENCE WORLD ELECTRICITY

A LEADING economist yesterday suggested that privatisation of Britain's electricity industry should begin with sale of the area distribution boards, and that the power stations should be kept in the public sector until after the next general election.

Mr Christopher Johnson, chief economic adviser of Lloyds Bank, said the industry should not be sold as a giant corporation. Nuclear plants should remain publicly-owned and the National Grid should be separated from the generating authority.

He also attacked the government proposal to raise electricity prices by 15 per cent over the next two years and linked the sale of conventional power stations with privatisation of the coal industry.

Mr Johnson was speaking at a Financial Times conference in London attended by electricity officials, financiers and economists from 20 countries.

The decision to raise prices by 15 per cent over the next two years, Mr Johnson said, "is robbing Peter to pay Paul; the Government is taxing the electricity consumer to increase its own privatisation proceeds.

"The argument that higher prices are needed to finance new power stations does not stand up, since the Central Electricity Generating Board will soon have repaid the whole of its debt, and could well borrow to finance new ventures, whether it was in public or in private hands."

Mr Johnson, who is also honorary professor of economics at Surrey University, prefaced his remarks by saying that getting the state out of electricity was "acceptable on broad grounds of economic principle."

He favoured selling each of the 12 area boards in England and Wales separately, similar to the proposed procedure in the water industry.

The boards were potentially competitive with each other because the most profitable one made only three times as much profit as the least. There was a sufficiently narrow range of variance in return on assets to make them broadly comparable with each other.

Once a market price was established for one board, the others could be sold at a relatively small discount off a price based on the same price to earnings ratio.

The Government would have considerable flexibility in deciding when to bring forward each board, thus avoiding bottlenecks in Stock Exchange paperwork.

The boards would need to be regulated, since each would have a monopoly in its area. They could compete at the boundaries and would continue to compete to some extent against other fuels. The regulatory authority would also have the task of public comparison of performance of the boards so that they would have to compete

The structure of the generating industry was the most difficult part of the whole exercise, Mr Johnson said. "The fact that the CEGB is campaigning so hard to remain one entity and to retain control of the National Grid should be enough to make believers in competition suspicious of any such solution."

The present system worked well enough but "foreign experience shows that this is not the only way to run an efficient system."

The first obvious move was to make the grid into a separate corporation, he said. It would be a natural monopoly, regulated in such a way as to be obliged to transmit electricity between the seller in the generating industry and the buyer in the distribution industry. There seemed to be no reason why it should not be privatised, subject to proper regulation.

The next move was to separate the nuclear power industry keeping it under state control for the time being. The costs of fuel reprocessing, waste storage, and decommissioning old plants had become a millstone around the nuclear industry's neck.

After subtracting the CEGB's nuclear stations and the grid, the CEGB was left with 37 coal fired, four mixed fuel and 20 other, smaller, stations. They could be sold as one large corporation, competing with the state nuclear power corporation, or as a number of regional utilities.

Mr Johnson said they could be merged with area boards into vertically integrated generation and distribution corporations, but the best way of introducing competition would be to split up the conventional generating side of the CEGB into a number of units, on a regional basis, and possibly also by fuel. However, the Government would first have to establish the right of power stations to import cheap foreign coal, or at least allow British Coal to match foreign prices.

On the timing of privatisation, Mr Johnson said the 12 area boards could be sold at the rate of four a year over a three-year period. During this time, the state nuclear power corporation would be set up as an entity separate from the CEGB, as would the national grid.

Privatisation of conventional power stations would have to be held over until after an election in 1991 or 1992. "By that time the coal industry itself would be ripe for privatisation."

High incidence of child leukaemia in three more areas

BY RICHARD EVANS

THREE NEW areas with a high incidence of child leukaemia have been discovered in the north of England.

Granada Television's World in Action programme last night claimed that the new evidence showed that the clusters - at Tyneside, Teesside and Whitehaven, Cumbria - could not have occurred by chance. The programme also renewed the controversy over links between nuclear installations and child leukaemia.

The Tyneside cluster, the largest of the three, could not have been caused by radiation. There are no known sources of radiation nearby, although the cluster contains the same type of child leukaemia as the one near the nuclear reprocessing plant at Sellafield, Cumbria.

The concentrations were uncovered by a team from Newcastle University. The team used one of the country's most powerful computers, which was able to spot the difference between leukaemias grouped together by chance and genuine clusters of cases with common causes. It analysed all child leukaemias which occurred in northern England between 1968 and 1985.

Dr Alan Craft, one of the team's leaders, said: "The results really are very dramatic indeed. They point us in a new direction to look for causes of child leukaemia."

Dr Stan Openshaw, the other team leader, said the team did not rule out radiation as a cause of some childhood leukaemias.

However, previous researchers had thought that leukaemia was only caused by radiation, so they had only been looking for clusters around known radiation sources such as nuclear installations. In contrast, the Newcastle team had adopted a much more general approach, Dr Openshaw said.

Children living in some parts of the Tyneside cluster may be more than 10 times more likely to contract leukaemia than the national average. Local health officials are setting up a team of national experts to try to discover the cause.

Car output falls sharply

BY JOHN GRIFFITHS

CAR PRODUCTION fell sharply last month from the high levels of the previous two months, according to Department of Trade and Industry provisional figures. Seasonally-adjusted output of 92,000 cars last month compared with 110,000 in August and 105,000 in July.

However, taking the latest six-month period as a whole, production was 11 per cent higher than in the previous six-month period and 16 per cent higher than for the corresponding six months a year ago.

The statistics were not influenced by the disputes which recently hit Ford, Vauxhall and Austin Rover but the DTI was not available yesterday to comment on the precise reasons for the downturn.

Commercial vehicle production last month, at 19,600 units, was also down compared with the immediately preceding months. However, it was still 5 per cent higher for the past six months as a whole, compared with both the preceding six months and the corresponding period last year.

FT LAW REPORTS

Default clause is not a penalty

THE ANGELIC STAR
Court of Appeal (Sir John Donaldson, *Master of the Rolls*): Lord Justice Neill and Lord Justice Gibson): November 11 1987

A LOAN condition is not a penalty clause to be disregarded by the court if, properly construed, it provides for instant repayment of capital on the borrower's failure to repay by instalments, and for payment, not of future interest but of interest due at date of default.

The Court of Appeal so held when dismissing an appeal by defendant, Mr Marcos-Diamentis Lemos, from Mr Justice Gatehouse's decision giving summary judgment against him as guarantor of a loan for purchase of a ship built, sold and delivered by *plaintiff shipbuilders*, Oresundsvarvet Aktiebolag.

SIR JOHN DONALDSON MR said that by a written contract dated March 1 1983, Swedish shipbuilders agreed to build a bulk carrier, the Angelic Star, and to sell and deliver her to the purchaser, Agelikos Astir Corporation.

The price was $24.7m of which 20 per cent was payable on or before delivery. The remaining $19.7m was payable on delivery or, at purchaser's option, by a delivery credit. The purchaser exercised the option.

Under the option the delivery credit was to be repaid over eight years by 16 semi-annual instalments. The credit bore a fixed rate of interest of 85 per cent per annum payable semi-annually *in advance of the loan*. On delivery the purchaser was to deliver 31 bills of exchange payable to the shipbuilders, 16 for *repayment of capital and 15 for* declining payments of interest.

The ship was to be mortgaged by way of security. Also, Mr Lemos was to guarantee the last six bills of exchange relating to capital, and the last five relating to interest.

Clause 13 of the loan conditions in the shipbuilding contract provided that in the event of default: "The loan, together with all other monies due...shall immediately become payable and the lenders shall forthwith be put in funds to cover all existing and future liability under any outstanding bills drawn in connection with the loan, and the security...shall become enforceable" if the purchaser failed to pay capital or interest on due dates.

The bills exchanged were duly drawn by the shipbuilders, accepted by the purchaser, and endorsed with recourse by Mr Lemos, who also executed the guarantee.

There was late payment and partial default on the first of the bills of exchange for capital and interest payable on April 23 1976, and total default in respect of all other bills of exchange.

The vessel was arrested and sold, and the net proceeds were paid to the shipbuilders.

Mr Justice Gatehouse gave *judgment against Mr Lemos* under RSC Order 14 for $1,783,744, which included interest on $940,151 at 9.5 per cent, *said to have become due under* loan condition 13, less late partial payments and receipts from sale of the vessel.

Although it was not a consent judgment, argument was confined to the appropriate rate of interest. Mr Lemos now wished to dispute liability for the principal sums by raising a point neither pleaded nor argued before Mr Justice Gatehouse.

The argument depended on the proposition that clause 13 of the loan conditions was a penalty clause and should be disregarded. It was said that the clause purported to make capital and eight years interest payable as soon as there was any default.

That was not accepted.

A clause which provided that in the event of breach a long term loan would immediately become repayable, and that interest for the full term would be payable at once, would constitute a penalty.

But condition 13 did not read in that way.

"The loan" was the capital sum. "All other monies due" could not be construed as "all other monies which would otherwise become due in the future". It meant "all other monies due at the time of default".

The mere fact that the capital sum became immediately repayable on a failure to comply with the conditions on which credit was extended, could not constitute a penalty.

The provision that the lenders should be put in funds to cover all existing and future liability under outstanding bills, was intended to safeguard the shipbuilders against potential liability as drawers, should the bills be negotiated and the purchaser, *as acceptor, fail to honour them* on maturity.

That again was not a penalty provision.

Liability on April 23 1976 was to repay the full sum lent. The measure of damages for failure to do so was the capital sum *together with any other sums* due at moment of breach less subsequent receipts, with interest on the resulting amount.

The appeal should be dismissed.

LORD JUSTICE NEILL, agreeing, said there was no rule that prevented a lender from stipulating that on failure to pay an instalment on due date the whole loan became due and repayable forthwith.

The opening words in clause 13, "the loan together with all other monies due..." imposed on the purchaser the obligation to pay the outstanding amount of the loan together with any outstanding interest due.

That could not be regarded as a penalty provision.

The succeeding words, "and the lenders shall forthwith be put in funds...", were designed to protect the shipbuilders against *potential liability as drawers* of the bills in the event that they were negotiated and were not paid by the purchaser on maturity.

The purchaser was being required to pay no more than the outstanding balance of the loan, interest on that balance, and compensation for any liability which the shipbuilders might incur as drawers of the bills.

LORD JUSTICE GIBSON, also agreeing, said that the doctrine relating to penalties was not a rule of illegality. It was a rule by which the court, for public policy purposes, refused to sanction legal proceedings for recovery of a penalty.

The rule was not designed to strike down any *more of a lawful* contract than was necessary to apply public policy. It should interfere as little as possible with proper enforcement of a lawful contract.

For Mr Lemos: E.C. Evans-Lombe QC and Jonathan Crow (Elborne Mitchell & Co).
For the Shipbuilders: Catharine Otton-Goulder (Norton-Rose Botterell Roche).

By Rachel Davies
Barrister

PETROCORP OVERSEAS FINANCE LIMITED

(a company incorporated with limited liability under the laws of the Cayman Islands)

ECU75,000,000 9% Guaranteed Bonds Due 1993

NOTICE OF MEETING
of the holders of the above-mentioned Bonds

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Bondholders") of the ECU75,000,000 9% Guaranteed Bonds Due 1993 (the "Bonds") of Petrocorp Overseas Finance Limited (the "Issuer") will be held at Painter's Hall, Little Trinity Lane, London EC4 on Friday, 11th December, 1987 at 9.30 a.m. (London time) for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Trust Deed (the "Trust Deed") dated 25th November, 1985 made between the Issuer, Petroleum Corporation of New Zealand Limited and The Law Debenture Trust Corporation p.l.c. as trustee for the holders of the Bonds.–

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders of the outstanding ECU75,000,000 9% Guaranteed Bonds Due 1993 (the "Bonds") of Petrocorp Overseas Finance Limited (the "Company") constituted by a Trust Deed dated 25th November, 1985 made between the Company, Petroleum Corporation of New Zealand Limited (the "Guarantor") and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders") hereby:–

(1) sanctions the Proposals (as described in the Notice convening this Meeting (a copy whereof has been produced to this Meeting and for the purpose of identification signed by the Chairman hereof)) and the implementation thereof;

(2) sanctions any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Bondholders and the holders of the interest coupons appertaining to the Bonds (the "Coupons") against the Company and/or the Guarantor (whether such rights shall arise under the said Trust Deed, the Bonds, the Coupons or otherwise) involved in the implementation of the Proposals and this Resolution; and

(3) authorises and requests the Trustee to concur in the implementation of the Proposals and this Resolution and to execute a Supplemental Trust Deed to give effect thereto in the form of the draft produced to the Meeting and signed for the purpose of identification by the Chairman hereof."

The attention of Bondholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in paragraph 2 of "Voting and Quorum" below.

Copies of the Trust Deed (including the Terms and Conditions of the Bonds) and the draft Supplemental Trust Deed referred to in the Extraordinary Resolution set out above will be available for inspection by Bondholders at the specified offices of the Paying Agents set out below. An Explanatory Memorandum will also be available.

In accordance with normal practice the Trustee expresses no opinion on the merits of the Proposals but has authorised it to be stated that it has no objection to the Extraordinary Resolution being submitted to the Bondholders for their consideration.

THE PROPOSALS

The New Zealand government is in the course of privatising the Guarantor of the Bonds.

At present Her Majesty The Queen in right of New Zealand (the "Crown") holds 69.2 per cent. of the issued share capital of the Guarantor (the "Crown's Shares").

Condition 11(viii) of the Bonds provides that it is an Event of Default if the Crown either ceases to own more than 50 per cent. in nominal amount of the issued share capital of the Guarantor or ceases to be able to exercise by virtue of its shareholding in the Guarantor more than 50 per cent. of the votes capable of being cast in ordinary circumstances at a general meeting of the shareholders of the Guarantor.

In order therefore to facilitate the sale of the Crown's Shares, the Guarantor has formulated a proposal for the removal of Condition 11(viii) in return for giving Bondholders an option to redeem all or any of their Bonds at par on 28th November, 1988. In addition, the Issuer is to be given a right optionally to redeem all outstanding Bonds if in consequence of prior redemptions or purchases and cancellations ECU7,500,000 or less in principal amount of the Bonds remains outstanding.

VOTING AND QUORUM

1. A holder of the Bonds wishing to attend and vote at the Meeting in person must produce at the Meeting either the Bond, or a valid voting certificate or valid voting certificates issued by a Paying Agent relative to the Bond(s), in respect of which he wishes to vote.

   A holder of Bonds not wishing to attend and vote at the Meeting in person may either deliver his Bond(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified offices of the Paying Agents set out below) instructing a Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with his instructions.

   Bonds may be deposited with any Paying Agent or (to the satisfaction of such Paying Agent) held to its order or under its control by Cedel or the Operator of the Euro-clear System or any other person approved by it, for the purpose of obtaining voting certificates or giving voting instructions in respect of the relative Meeting on the basis that all such instructions are, during the period of 48 hours prior to the time for which such Meeting or adjourned Meeting is convened, neither revocable nor subject to amendment. Bonds so deposited or held will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, not less than 48 hours before the time for which the Meeting (or, if applicable, any adjourned such Meeting) is convened, the voting instruction receipt(s) issued in respect thereof.

2. The quorum required at the Meeting is two or more persons present holding Bonds or voting certificates or being proxies and holding or representing in the aggregate a clear majority in principal amount of the Bonds for the time being outstanding. If a quorum is not present at the Meeting, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Bondholders). The quorum at such an adjourned Meeting will be two or more persons present holding Bonds or voting certificates or being proxies whatever the principal amount of the Bonds so held or represented by them.

3. Every question submitted to the Meeting will be decided in the first instance on a show of hands unless a poll is demanded by the Chairman of the Meeting or by the Issuer or by one or more persons present holding one or more Bonds or voting certificates or being proxies and holding or representing in the aggregate not less than one-fiftieth part of the principal amount of the Bonds for the time being outstanding. On a show of hands every person who is present in person, produces a Bond or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each ECU1,000 principal amount of the Bonds so produced or represented by the voting certificates so produced or in respect of which he is a proxy or in respect of which he is the holder.

4. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-fourths of the persons voting thereon upon a show of hands or, if a poll is demanded, then by a majority consisting of not less than three-fourths of the votes given on such poll. If passed, the Extraordinary Resolution will be binding upon all the Bondholders, whether or not present at such Meeting and whether or not voting.

PRINCIPAL PAYING AGENT

Kredietbank S.A. Luxembourgeoise,
43 Boulevard Royal,
Luxembourg.

OTHER PAYING AGENTS

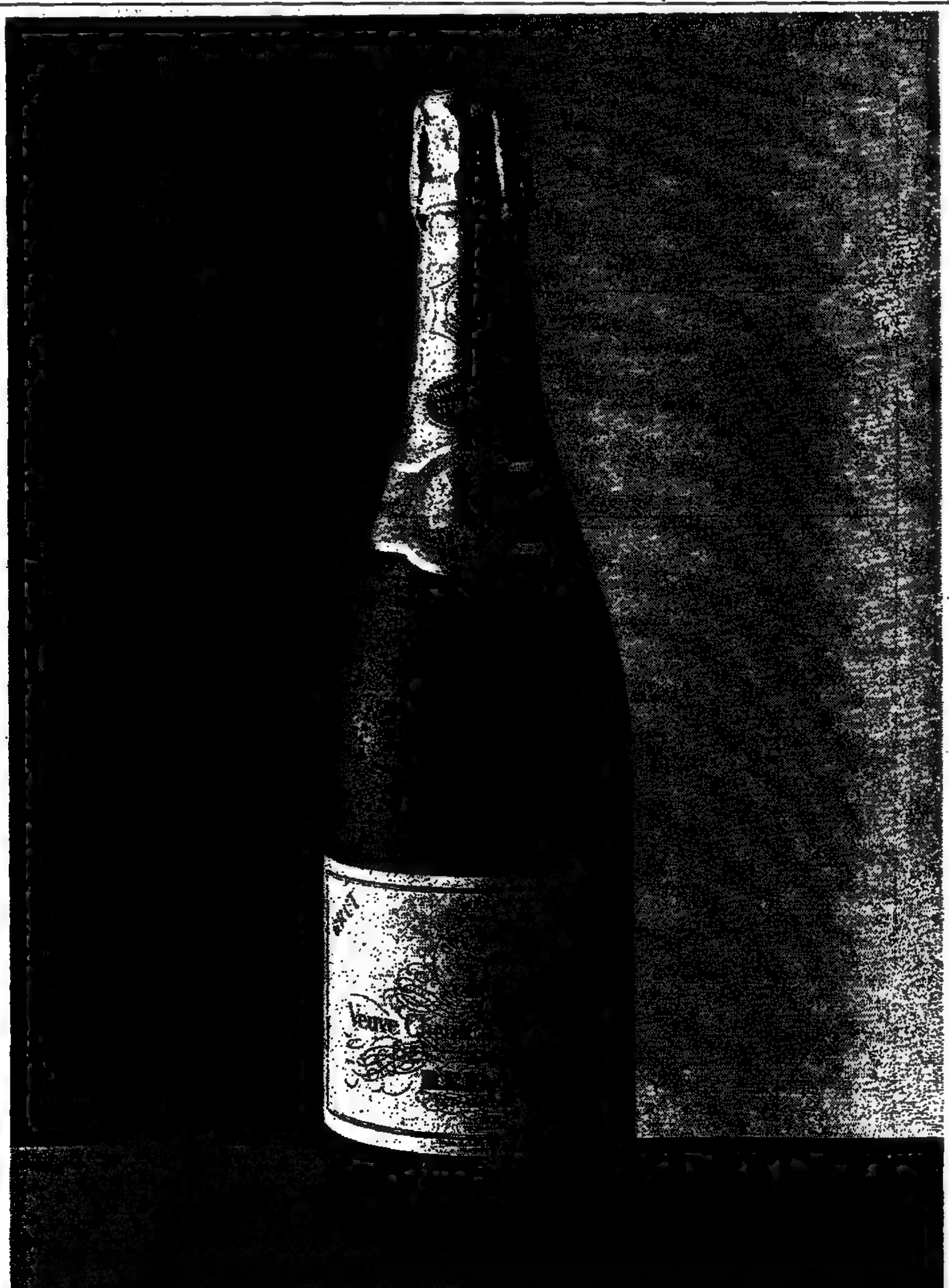
Kredietbank N.V.,
Arenbergstraat 7,
Brussels.

Crédit Suisse,
Paradeplatz 8,
CH-8021 Zurich.

Kredietbank N.V.,
40 Basinghall Street,
London EC2V 5DE.

Dated 17th November, 1987.

This Notice is given by
Petroleum Corporation of New Zealand Limited



The launch of a Pensions Management Company as celebrated and explained by a couple of grapes.

Champagne owes its elevated status to two varieties of grape, Chardonnay and Pinot Noir. Both are unquestionably superior grapes. Blend them, and one has a drink worthy of any celebration.

Coincidentally, there's a new company that owes its heritage to the pension fund departments of two companies. Framlington Investment Management and Throgmorton Investment Management. Both have unquestionably been extremely successful (consistently top quartile).

Together they are Framlington Pensions Management.

The new company has been formed to capitalise on the complementary strengths of these departments. Throgmorton specialised in identifying portfolios of smaller companies in the UK only. While Framlington specialised in general fund management with a bias toward smaller international companies. The areas of expertise may differ, the philosophies however are perfectly suited.

Framlington Pensions Management adheres to what can best be described as the "principle of undiscovered value." We devote our energies to identifying those overlooked and undervalued companies that we believe will show the greatest growth in earnings per share, market rating and therefore price.

So while some people regard a couple of grapes as just a couple of grapes, we see champagne.

For more information either call Paul Loach or Richard Lanyon on (01) 374 4100, or write to Royal London House, 22-25 Finsbury Square, London EC2A 1DS.

FRAMLINGTON
Pensions Management Limited

APPOINTMENTS

Changes at British Alcan

The enterprises division of BRITISH ALCAN ALUMINIUM has appointed **Mr Steve Williams** as planning and financial director. He was manager, financial reporting, at head office. **Mr Hugh Herrington** becomes managing director of British Alcan Extrusions; he was a director. **Mr P.J. Edwards** is made managing director of Baco Contracts; he was general manager. **Mr Alan J. West** has been appointed Cambridge Glasshouse Co; he was at head office.

*

Mr Kit Brownlees is joining INVESTMENT INSURANCE INTERNATIONAL (MANAGERS) as managing director from the beginning of December. **Mr Julian Radcliffe** becomes chairman. For the last four years Mr Brownlees has been running the political risk business of Stewart Wrightson, and before that was with Hogg Robinson & Gardner

Mountain, of which his new company is a wholly-owned subsidiary.

*

Mr Jim Banville, managing director of Echo Newspapers, Westminster Press's division at Basildon, has been appointed managing director of Bradford & District Newspapers. He succeeds **Mr Ken Piper**, who is retiring. Westminster Press divisions at Bath and Trowbridge are to be managed together following the retirement of **Mr David Edgley**, who has been managing director of Wessex Newspapers at Bath for 15 years. **Mr Phil Harris**, managing director of B. Lansdown & Sons at Trowbridge, will assume responsibility for both divisions from December 1.

*

Professor John Fyfe has joined the boards of W S ATKINS MANAGEMENT CONSULTANTS and W S Atkins Planning Consultants. He was the Government's overseas manpower and employment advisor.

*

Mr Alan Joynes has been appointed to the board of ECONOMIC FORESTRY GROUP. He joined the group in 1972, and is managing director of Worlds End Garden Centre, Wendover.

*

Mr Alistair G. Littlejohn has been appointed a director of HIGGS AND HILL BUUILDING.

*

Mr Tom De Wilde and **Mr Rodney Timson** have been appointed main board directors of TOM SMITH GROUP, Norwich, Christmas cracker and party product maker.

*

Mr Barrie Turner has been appointed chairman of SEDGWICK UK's Midland region.

*

BEMROSE CORPORATION has appointed **Mr Peter Brewin** as chief operating director of Bemrose UK, Derby; **Mr Graham Bennington** as managing director of Bemrose Security Printing; and **Mr David Oakes** as managing director of Bemrose Calendars & Diaries.

*

BET has appointed **Mr Bill Hancock** as managing director of Anglian Windows; and **Mr Alan Keizer** as commercial director of a new division covering all BET's home improvment businesses.

*

Mr Brian Coombes has been appointed head of external affairs for MANCHESTER AIRPORT. He was airport operations manager.

*

PETER PAN PLAYTHINGS has appointed **Mr Malcolm Cook** as managing director, and **Mr David Frear** as development director. Mr Cook joins from H. Schelhorn & Co., where he was sales and marketing director, and Mr Frear joins from Action Games & Toys, where he was development director. Peter Pan Playthings is a wholly-owned subsidiary of Bluebird Toys.

*

Mr M.W.R. Dobson has been appointed a director of ANGLO & OVERSEAS TRUST. **Mr J.H.L. Norton** has resigned from the board.

*

Mr David Brierley has been promoted from finance director to managing director of GABLE RETIREMENT HOMES - a subsidiary of Ladbroke Group.

*

TYZACK & PARTNERS has appointed **Mr Neal Wyman** and **Mr Michael Edwards** as partners.

BUILDING CONTRACTS

£15m for Turriff

TURRIFF CONSTRUCTION has won contracts worth over £15m. Projects include a £2.9m industrial development at Hortonwood for Telford Development corporation involving the construction of seven steel-framed buildings with mezzanine floors together with the external works, drainage and out-buildings.

The Prudential Assurance Company has awarded a £1.9m contract to build a residential training centre at Hunton Bridge in Hertfordshire comprising a two-storey bedroom block containing 45 bedrooms with en suite bathrooms and a basement swimming pool and jacuzzi. There will also be a two-storey barn bedroom block containing 15 bedrooms with en suite bathrooms together with a single-storey facilities block, with glazed walkway links between buildings. The facade of the new buildings will endeavour to mirror the existing historic building which is due to be refurbished.

At Watford Junction Station, the British Railways Board has awarded a £1m contract to demolish the platform buildings and replace them with steel-framed glazed structures. The contract includes installation of lighting and other finishings.

Contracts worth a further £2m have been awarded by Citygrove Developments in Stoke-on-Trent and Panda Developments in Wigan for three retail warehouse units. At Stoke-on-Trent two attached steel-framed units are being constructed. At Wigan the contract is for a greenhouse extension and two-storey office accomodation within the warehouse together with an access road and car parking facility on a vibro-compacted site.

A number of modernisation and refurbishing contracts, totalling £2.9m, have been awarded by local councils including: the City of Bradford Metropolitan Council, Huntingdonshire District Council, Dudley Metropolitan Borough Council, Leeds City Council and Bromsgrove District Council. Meanwhile at Middlesborough the borough council has awarded a £2m contract for the modernisation and alteration of 99 houses to form 97 houses and four flats.

High tech offices for Automobile Association

WALTER LAWRENCE PROJECT MANAGEMENT has been awarded a design and build contract by Automobile Association Developments for a high-technology building at Priestley Road, Basingstoke, Hampshire, at a cost of £4.8m.

The scheme consists of two main blocks totalling 30,000 sq ft linked by a service spine of 3,500 sq ft at the rear. The larger of the two blocks will house the main computer room, operations area, printing, and open plan office. Conference rooms are at the mezzanine level. The second block will contain the secondary computer system, operations area and some additional office accommodation.

Situated about two miles north of the centre of Basingstoke, the building's roof has been designed as a single- span curved structure, clad in natural aluminium. It has a large overhang to maximise weather protection and minimise solar heat gain. The building is clad with faced brick work and curtain walling using tinted double glazed units with a powder coated aluminium finish.

Foaling unit at Darley Stud

Building contracts totalling £4.6m have been won by three companies in the **WILLMOTT DIXON** group.

Two have been won by Bush Gould, Norwich. One is worth £1.5m and will involve construction of a foaling unit, a loose box unit and staff bungalows for the Darley Stud Management Company at Newmarket.

The other is for construction of a warehouse with offices at Woodbridge in Suffolk for Blyth Hasel and is worth in the region of £637,000.

Willmott Dixon Western, Hayes, has been awarded a contract worth £524,000 by Pearl Assurance for the refurbishment of offices at Neville House, Kingston upon Thames.

Willmott Dixon Construction, Shefford, is at work on a £1.7m contract to build a manufacturing unit and offices at the Sigma Electronics Development in Letchworth, and on a £280,000 contract for the London Industrial Park for repairs to fire damage at Roding Road, Beckton.

Underneath the arches

The special contracts division of **HIGGS AND HILL BUILDING** hasstarted work on the refurbishment and extension of 50 railway arches at Bow Triangle, London EC3, for the British Rail Property Board, to create accommodation for small businesses. The contract worth over £2.3m.

In addition to the refurbishment of over 50,000sq ft of space, three industrial units providing a further 16,000 sq ft are to be constructed, and extensive infrastructure work carried out.

The six acre site is a disused railway goods yard which is bounded on three sides by elevated railway lines on brick viaducts. Within the triangle access roads are to be constructed, maintaining a transformer compound which feeds the main railway lines through a network of cables, passing across the site. These have to be remain live throughout the contract period which will require close and coordination between the site management and B R engineers.

The new buildings and the extensions to the arches are to be constructed on piled foundations either of load bearing brick and blockwork or with structural steel frames clad in either brick or steel sheeting.

Before work commenced, the arches were occupied by small trading companies and it is expected that the development will attract many new light industrial businesses from within the borough.

Travenol distribution centre

Travenol Laboratories, claimed to be the world's largest medicare company, has appointed ECH Project Services to project manage the development of its 15-acre, £8m national distribution centre at Brackmills, Northampton. Travenol bought the site from the Commission for the New Towns, for a price in the region of £95,000 per acre.

The first 140,000 sq ft phase starts this month. This will be followed by a second 55,000 sq ft phase of high-bay (19 metre) clear storage equipped with another automated racking system.

The warehousing complex has a computerised stock control system, developed by Touche Ross's planned warehousing division.

The main contractor is **R.M. DOUGLAS CONSTRUCTION.**

Try builds West End block

The **TRY** group has been awarded contracts worth £4.3m. Try Construction has £2.3m contract from Burhill Estates for the redevelopment of 5-9 Warwick Street in London's West End. The existing buildings are to be demolished and replaced by a six-storey mixed development of some 2350 sq.metres including the basement. Work has begun for completion in the middle of next year. The building will be of steel-frame construction with lightweight concrete floors, and clad in brickwork, with a central bay to Warwick Street clad in Portland stone.

Try Build has added two orders from the Property Services Agency to its term contracts list, with work worth £2m over three years. The contracts cover maintenance and refurbishment in the Winchester and Worthy Down area, and the Blackdown area. The company is also carrying out refurbishment at Lords cricket ground worth £163,000.

Sports and leisure orders

Humberside contractor, **GEO HOULTON AND SONS**, has won contracts worth nearly £6m which have a strong sports and leisure bias and are nearly all design and build.

Work is underway on an ice rink, costing £2.65m, for Humberside County Councils. Due for completion early next summer the rink will be one of the biggest in the country with an Olympic sized, 60 x 30 metres ice pad and seating for more than 2,000 spectators. It is to have a Butler MR24 high performance standing seam roof.

Close by, on Hull City Council's refurbished Old Town Marina, is a £500,000 design and build pub, the Harbourmasters Tavern, for local businessman Mr James Moggridge and Websters Yorkshire Brewery.

In association with Lodge Sports, Houlton is to design and build two indoor bowls centres at Barwell, Leics, and Hull, extend an existing one at York and refurbish a fourth at Whitstable. A further four centres are under negotiation.

UK NEWS - PARLIAMENT and POLITICS

'Flexible' poll tax scheme to be explored

By Peter Riddell, Political Editor

SUGGESTIONS by Tory MPs and local party activists that the community charge or poll tax should be introduced in one go in England to replace domestic rates are running into increasing difficulties. Senior ministers will meet later this week to seek a compromise plan.

The idea that local authorities should themselves be allowed to decide how quickly to introduce the new charge has also been ruled out. Ministers believe this would take the political initiative away from them and would allow Labour local councils to bring in the plan when they want and so be able to blame the Government.

Consequently, ministers are now exploring the possibility of a flexible scheme under which Whitehall would allow some local authorities to introduce the charge more quickly than others if they fulfilled certain criteria. These might cover the level of spending and of the charge in relation to a national average.

The snag is that this might favour some authorities at the expense of others, and so risk the bill being regarded as hybrid, which would delay its passage considerably.

Broader difficulties arise because of the existing redistributive nature of the rate support grant system and the proposed safety net to minimise transitional effects. These arrangements would be undermined if some local authorities were allowed to make the changeover more quickly than others.

The hope in Whitehall is that decisions can be completed in time to publish the bill early next month and to allow a Commons second reading before Christmas.

The whole saga has involved changing preferences. Originally, the Department of the Environment and Mrs Thatcher wanted the charge to be introduced as quickly as possible, following the precedent of the immediate changeover agreed in Scotland and proposed for Wales.

Livingstone in row over 'IRA victory' remark

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

MR KEN LIVINGSTONE, the left-wing Labour MP and a member of Labour's ruling national executive committee, yesterday found himself embroiled in a fresh political row over his stance on Northern Ireland.

Mr Livingstone, the MP for Brent East, said on Independent Radio News that he believed the IRA campaign of violence in the province would eventually win.

He added: "I do not think anybody seriously believes the IRA will not eventually get their own way. As with all the other colonial situations we have been in, eventually Britain will go."

At the weekend, Mr Livingstone walked out of the annual meeting of the Labour Co-ordinating Committee, the left-wing pressure group, at which he was accused of "having blood on his hands" because of his previous contacts with Sinn Fein.

The committee, which earlier this year helped get Mr Livingstone elected to Labour's NEC, last week voted him off its own executive.

The former Greater London Council leader's latest remarks, coming a few days after Mr Neil Kinnock, the Labour leader, had visited Dublin and condemned Sinn Fein's "bullet and ballot box" policy, have infuriated the party leadership. They threaten to further isolate Mr Livingstone from most of his NEC colleagues and to undermine support for him within elements of the party's left wing.

A terse statement issued last night by Labour said that Mr Livingstone "speaks only for himself". It added: "The Labour Party is totally opposed to terrorist actions and to Sinn Fein's cynical and dishonest strategy. Change must only come about by democratic, peaceful means."

Mr Livingstone said yesterday that he had always condemned violence in Northern Ireland but that he was not prepared to condemn the violence of one side alone. "If you condemn the violence of the Republicans, you have to condemn the violence of the loyalist paramilitaries and violence by British troops."

He said yesterday there had been violence in almost all of Britain's colonial conflicts. "The tragedy was, whether it was Cyprus or Aden, we could have negotiated a peaceful settlement years earlier but we hung on and the violence went on and on and eventually we got depressed and gave up.

"If you actually talk to Ulster Unionists they don't have the slightest doubt that eventually Britain will go. Their objective is to keep us there as long as possible," Mr Livingstone added.

He said Britain could either do what the Rev Ian Paisley wanted and "flood the province with troops and crush the IRA with a degree of ruthlessness which might not be acceptable in a democracy" or it could negotiate.

"But to carry on as we are not negotiating, not actually ending the conflict and having Enniskillens or the Harrods bombing or the Regent's Park bombing year after year after year seems to me to be the worst of all possible worlds," he added.

Mr Kevin McNamara, the Labour spokesman on Northern Ireland, said last night that the "siren call" for revenge, repression, internment and punishment of the nationalist population in the aftermath of the Enniskillen bombing had to be resisted.

Mr McNamara, who was talking at the University of Ulster, said that the "window of opportunity" created by the outrage should not be shattered by demands which would only lead to prevent another downward spiral into death and destruction.

Labour's Scottish strategy upstaged

BY Our Political Correspondent

LABOUR'S proposals for Scottish devolution, which are to be announced today and due to be debated in the Commons later this month, have been upstaged by a Liberal Party decision to mount its own debate next Monday on the government of Scotland.

Mr Donald Dewar, the shadow Scottish Secretary, will today unveil Labour's Scotland Bill at press conferences in London and Edinburgh and the party proposes to use one of its allotted parliamentary days, close to St Andrew's Day on November 30, to debate the measure.

The bill, which is based on the 1978 Scotland Bill, would establish a directly-elected Scottish assembly with tax-raising powers, though not electable on the basis of proportional representation.

Although Labour accepts that the bill has no chance of winning parliamentary approval, its introduction to the Commons is intended to provide a focus for the party's onslaught on government policy towards Scotland and the alleged absence of a Tory mandate north of the border because of the party's weak parliamentary position.

The Liberal decision, together with a 10-minute rule bill calling for a Scottish Assembly, to be introduced on November 25 by Mr Archy Kirkwood, the Liberal Scottish Affairs spokesman, means the issue will have been raised twice in the Commons by the time Labour proposals are debated.

Last night, Mr Kirkwood said that next Monday's debate was intended to put the need for a Scottish parliament at the top of Westminster's political agenda.

Six-month limit plan for overseas visitors

BY IVOR OWEN

OVERSEAS visitors to Britain will be able to stay for a maximum of six months, instead of 12 months as permitted at present, under new regulations to be introduced by the Government.

Mr Douglas Hurd, the Home Secretary, announced the change in the Commons last night when moving the second reading of the Immigration Bill.

Its primary provisions remove the absolute right of men resident in Britain before 1973 to bring in their wives and families without having to meet the marriage tests in the Immigration Rules.

The bill also ends the exemption of such men from the requirement to ensure adequate financial support and accommodation for any new arrivals without recourse to public funds.

Mr Roy Hattersley, the shadow Home Secretary, led Labour protests that these provisions broke a promise made by one of Mr Hurd's Conservative predecessors in 1971 Mr Reginald Maudling that such men would have an absolute statutory right to bring in their wives and children aged under 16.

He stressed that the effect could be that men who had been employed for many years and paying income tax and national insurance contributions who became unemployed might not be able to bring in their wives and children because they were no longer in a position to support them.

Mr Hattersley described the bill as a "rotten, tawdry" little measure which pandered to those in the Conservative Party who wanted to play "the racist card" during the last general election.

It was a "disgrace" to a democratic parliament and would prejudice good community relations.

Mr Hurd emphasised that the change made by the bill would not prevent those settled in Britain before 1973 bringing their wives and children to join them.

It simply meant that they would have to satisfy the same rules about financial support and accommodation already applied to those who settled in Britain after the beginning of 1973.

Mr Peter Shore (Lab, Bethnal Green and Stepney), a former Cabinet minister, said the bill would hit hard at particular sections of the community, especially Bangladeshis. "Far from promoting racial harmony, it will increase the sense of distrust and alienation in the immigrant communities."

Mr John Watts (C, Slough) welcomed the "modest and necessary" bill. He said Labour had run a "lying and evil" campaign against the bill, "stirring up unnecessary fear" among immigrants that they might be deported if they did not meet registration requirements within a particular timescale.

Secrecy bill sponsors to seek backing from Prime Minister

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

Richard Shepherd: aiming for consensus

THE promoters of a private member's bill which sets out to repeal Section 2 of the Official Secrets Act are seeking a meeting with Mrs Thatcher to try to win government support for the measure, which is due to have its second reading in January.

Mrs Thatcher told the Commons last week that she did not think Mr Richard Shepherd's Protection of Official Information Bill represented the appropriate vehicle for such complex legislation but she confirmed that ministers were themselves considering changes to the widely-discredited Section 2.

A senior minister said at the end of last week that any proposals which did emerge from the present ministerial review would possibly form the basis of a white paper next summer. There was no question of any legislation being brought forward in the current session and an attempt to use the Shepherd bill to implement changes remained highly unlikely.

Mr Shepherd, the Tory MP for Aldridge Brownhills, yesterday wrote to the Prime Minister asking for a meeting between some of the bill's sponsors in an attempt to see if an "effective consensus" could be established. The bill does not propose any alterations to Section 1 of the act, which deals with espionage offences.

Mr Shepherd said in his letter that, because of the complexity of the issues involved in replacing Section 2, he believed the most efficient way of proceeding might be to establish a consensus between parliamentary and government sources. His bill had sought to achieve such a consensus but he would welcome further, substantive comment from government sources before the second reading.

Mr Shepherd stressed there were many precedents for legislative proposals which began as private member's bills becoming law after receiving the imprimatur of, or even formal adoption, by the Government of the day. The question of who introduced the bill was "a secondary question of relatively minor importance", Mr Shepherd added.

His proposals, which topped the ballot for private members' bills, would replace the "catch-all" Section 2 with measures to protect information in six key areas in relation to defence, international relations, security or intelligence information whose disclosure could seriously injure the national interest, information which could assist in committing a crime and certain categories of information provided in confidence to the state by private citizens.

The MP told Mrs Thatcher that he and the bill's co-sponsors had had always hoped that the issue would secure government support and he emphasised that no ministers had so far expressed major disagreement with most of the bill's contents.

Mr Shepherd said that the architects of the proposals had considered the failure in 1979 to introduce changes to the 1911 act and had produced a bill which reflected both the need to protect official information, which could cause serious injury if released, as well as general information which needed less than the sanction of criminal law.

Big investment by Japan in UK foreseen

By Our Political Editor

THE next decade will see "enormous" Japanese investment in Europe, Mr Peter Walker, the Welsh Secretary, forecast yesterday at the beginning of a five-day inward investment mission to Japan.

Much of the increased investment would be coming to the UK, Mr Walker told an Invest in Britain seminar in Nagoya.

Following the massive investment in the US by Japan over the last decade, Mr Walker said the next decade would see Japan make enormous investments in the EC.

Japanese companies would, he said, choose the UK rather than other European countries "because of its large and impressive financial sector, because it had the fastest economic growth of all the OECD countries, a low inflation rate, the lowest labour costs in Western Europe and the highest improvement in productivity."

He claimed that chief executives of Japanese companies now in Wales had been impressed by the way skilled manpower had been provided by training.

MPs raise concern over grant for haemophiliacs

BY TOM LYNCH

AN ANNOUNCEMENT that the Government is to provide £10m to help the 1,200 haemophiliacs who have been treated with blood products infected with the AIDS virus was welcomed with reservations by MPs on both sides of the Commons yesterday.

Mr Tony Newton, the Health Minister, said £10m would be paid to the Haemophilia Society to establish a trust fund to help those infected with the HIV virus which is associated with AIDS after being treated by the NHS with a contaminated blood-clotting agent. He said the fund would also help relatives of those who have developed full-blown AIDS, many of whom have since died.

His statement was greeted with approval from MPs of all parties who have campaigned for extra funding, but there was concern that some of those receiving payments from the fund might lose entitlement to social security benefit and some MPs felt the sum available - about £8,000 per victim - would not be adequate.

Mr Robin Cook, the shadow Social Services Secretary, urged the Government not to "short-change" the victims. The money was unlikely to meet the most pressing need of most victims, which was the clearing of a mortgage.

Mr Frank Field (Lab, Birkenhead), Mr Robin Maxwell-Hyslop (C, Tiverton), Mr David Young (Lab, Bolton South East) and Dr Norman Godman (Lab, Greenock and Port Glasgow) said any payments from the fund should be "disregarded" for social security purposes.

Mr Jeff Rooker (Lab, Birmingham Perry Barr) told Mr Newton that MPs "will not accept any of this money finding its way back to the Treasury via the tax system or your department as a result of clawback".

Mr Newton described the £10m as an "adequate and proper sum" and insisted that it did not represent a compensation scheme but was "a recognition of a special and unique combination of circumstances".

He said the trust would receive the money as soon as it was set up and would make payments over a long period, so interest earned would increase the total available.

He said it would be for the Haemophilia Society to "consider the interaction between the payments and the social security system in general". He promised that his officials would give the society "the best possible advice".

Chivalry succeeds aggro

PARLIAMENTARY SKETCH

THE COMMONS met in apprehensive mood yesterday following the ructions in the Chamber last week. Were we in for more aggro or were the lads on the Westminster terraces going to return to more civilised conduct?

Reassurance soon emerged in the person of John Stokes, the voice of Tory traditionalism from Halesowen and Stourbridge. Anarchy was put to flight and stability restored.

Where Mrs Thatcher wants a return to Victorian values, the bluff Mr Stokes seems to believe that the nation started to go to the dogs with the execution of Charles I.

In an intervention yesterday he was intent on taking us back to the age of chivalry when John Wakeham, Leader of the House, was answering questions on the sensitive subject of which journals should be placed in the Commons Library.

He wondered if Mr Wakeham would be kind enough to put in a request for his favourite reading material, the Reactionary Herald and Feudal Times.

Gravely Mr Wakeham assured him that his request would be listened to in the right quarters. Whether he meant the Commons Librarian or the Royal College of Arms was not clear.

In the meantime MPs will have to make do with reading excerpts from this fascinating but fictitious journal in the Peter Simple column in the Daily Telegraph.

A little earlier there had been additional evidence that our parliamentary traditions had survived last week's noisy events. That fractious left-winger Dennis Skinner emerged as a pillar of the Church, if not of the state. It was all rather bewildering, particularly coming from a member who had been ordered out of the Chamber by the Speaker only a few days ago.

During questions to Michael Alison, the Tory MP who answering for the Church Commissioners, Skinner raised the matter of the church in his beloved constituency of Bolsover. Naturally, Skinner's old enemies at British Coal represented the forces of reaction in his version.

He wondered whether Mr Alison was aware that British Coal was being tardy in making financial settlements for mining subsidence which was endangering the fabric of Bolsover Church.

Why, he had even challenged British Coal to debate the matter with him in the church in order to get negotiations started. Meanwhile, he urged that the Church Commissioners should make these "Philistines" deal with the matter.

The prospect of Skinner taking to the pulpit probably struck terror into the heart of Mr Alison, a man of meek and clerical demeanour. No doubt he reflected that the Anglicans have enough trouble with their own turbulent priests without the member for Bolsover nailing his theses to the church door.

Gently Mr Alison commended Skinner on a theological point. He was glad that he had referred to Philistines, which was an Old Testament term, rather than heretics, which came from the New Testament.

He had found British Coal most helpful in these matters but he was prepared to give the Labour MP any assistance he could.

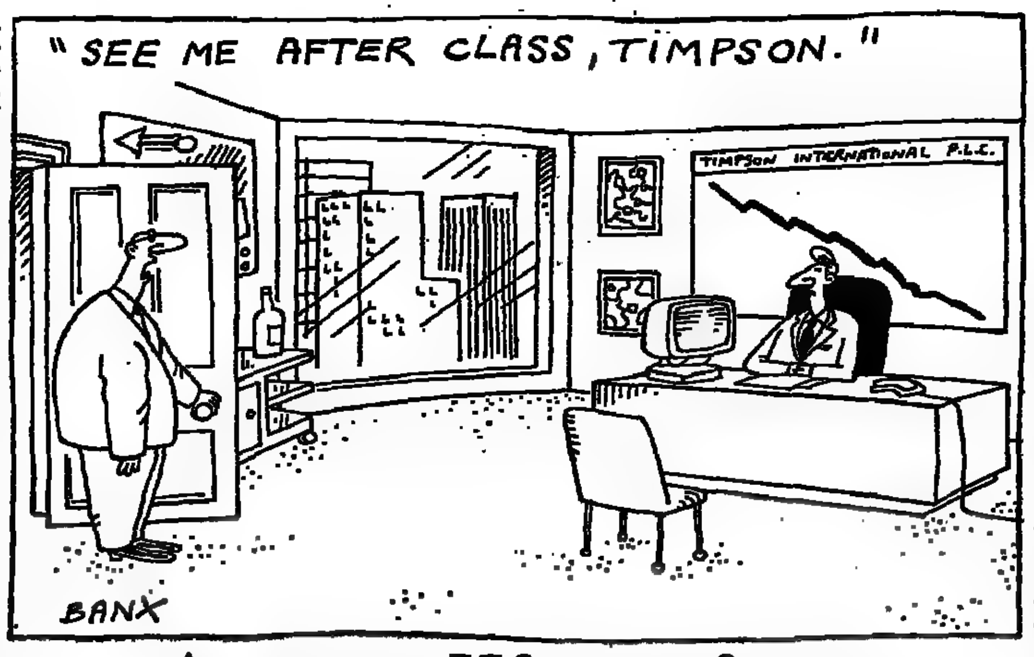
Meanwhile on the Tory benches Sydney Chapman was more concerned over the fine print concerning God and Mammon when Mr Alison told him that the recent hurricane had done £660,000 of damage to Church property.

Mr Chapman wondered whether such "acts of God" would face the Church authorities with an awkward moral dilemma. If they failed to take out insurance it would show a certain lack of financial probity. But if they did so would it not indicate a certain lack of faith in divine protection?

However, Mr Alison declined to be impaled on the horns of this dilemma. The Church Commissioners were men of more robust faith, he said.

John Hunt

MANAGEMENT: Small Business



A gruelling time was had by all

Charles Batchelor sits in on a course for entrepreneurs

SOME OF THE budding entrepreneurs on the 26-week course in small business skills at the London Business School had not sat down to formal learning for years. Others bristled with degrees and diplomas and had moved almost directly from standing in front of the blackboard to sit with the students in class.

Whatever their background, all 16 attending the Firmstart programme - intended for people with a business idea or a young company with substantial growth potential - seemed set for a gruelling time.

"This programme rapidly discovers the weaknesses in the individual and in the business," promised Catherine Gurling, director of enterprise programmes at the school. "It aims to get you to recognise those weaknesses and plug the gaps."

Her remarks came at the beginning of the third annual Firmstart scheme, which began at the LBS last month. This year's participants tend to be somewhat older than some in previous years so as the programme stretches out ahead of them they should have more experience to deal with problems. They range in age from Anthony Dunford, a 55-year-old engineering consultant with plans for an electronic publishing business, to Sally Storey, 26, who runs a lighting design company in West London.

Many have lengthy experience working for large firms while a substantial group this time round have left education or the social services for the world of business. David Lane, at present director of the educational guidance centre in the north London borough of Islington, is setting up the grandly titled Faculty of Experiential Learning to provide specialised training for people changing careers, while William James, a polytechnic lecturer, wants to market bedroom furniture.

The common elements that Gurling was seeking from the 80 people who applied to join the course were credibility and determination. "Their track record and financial resources have to match their business opportunity otherwise they won't have a viable business," she explains. "None of them is trying to do what is theoretically beyond them though some are trying to do too many things."

What she hopes to give them - apart from what looks to be a psychological assault course - are a range of management skills in special areas such as marketing and finance and a general idea of what management is about.

The pupils themselves have come for a variety of motives. Carole Thomas has worked for many years as a freelance designer, specialising in artwork for cookery magazines, but felt the business had to grow to get anywhere.

"My clients see me as a small-timer though I deliver a quality product," she says. "I couldn't charge more and I'll never get larger contracts unless I package myself."

David Lane says he wanted to get away from the academic environment in which his team was working and put his ideas into practice in the commercial world.

What the students have signed on for is a free course spread over six months. It has periods of formal tuition interspersed with periods out in the market place, cultivating customers and financiers. It starts with an introductory residential week at the LBS to be followed up by one two-day session a month throughout winter and spring.

Day one starts with the participants pairing up; then each makes a brief presentation to the group of his or her partner's business. Alex Stewart-Clark, 27, with a timber broking business and ambitions to become a timber merchant, is paired with Barry Drake, 39, who has a business designing control rooms for use in large industrial plant.

Drake seems more certain of his numbers and the broader concepts than the younger Stewart-Clark but both make assured presentations of the other's business. Nick King, who has a computer switching equipment company, manages a lucid explanation of Chiral Organics, the complex bio-technology business run by Derek Clissold, but Janet Billinge, who plans to set up a software company, complains later that her business did not come over at all.

Gurling is satisfied with her proteges' start despite the varying quality of the presentations. "They got on well. They laughed. That is important," she says. Half the benfit of a course like this comes for informal contacts between the students in coffee breaks between the students in coffee breaks and over dinner. The people who avoid the social breaks gain least, she has noticed.

Later the same day the course moves on to marketing, a subject which takes up most of the first three days. The students work in groups of four to tackle case histories. One requires them to devise a marketing strategy for a Scottish malt whisky producer which has diversified by developing a natural colouring made from roasted barley.

Gurling and another lecturer play the directors of the company, fielding questions on the properties and potential of their new product.

Storey and Stewat-Clark do the questioning for their group but get confused over the answers they are given. They are in despair. "We will have to devise a whole new strategy, complains Storey. Their two partners, Clissold and King, take up the point that they have apremium product to sell but the discussion wanders on rather aimlessly.

The real test is to come on the evening of day two when the 16 split into small tutorial groups and their own businesses or business ideas are put under scrutiny. The tutors act as bankers to whom the students must explain their companies and markets.

Nick King is forced to admit he doesn't have detailed figures for the size of the computer cabling or switching equipment market. Sally Storey has no figures for the growth rate of the lighting market. "I just know it is growing," she says hopefully.

James Macrae, who runs a successful up-market greeting cards business with annual sales of more than £100,000, has a tough time. Asked to describe who buys his cards, Macrae ventures "a person looking for a more creative card". "Pooh!" snorts Mark Pavan, the tutor. "That is not a definition of your customers. Who is actually taking it off the shelf?"

"I'm a boring financial person," Pavan explains. "If you can't give me even a feel for the environment you are operating in you are expecting me to take you on trust from the very start."

Nick King has similar difficulty explaining precisely what his computer switchgear does. "We have a unique application to solve our customers' bottlenecks," he says unconvincingly. Pavan is clearly not satisfied. "Here is a bank manager confronted with *another* computer company," he says. "You have only a few minutes to get him to understand what it is you do."

David Lane gets off lightly at this session but his choice of title for his company seems due to come in for scrutiny. "Faculty of Experiential Learning?" queries Pavan. "It sounds like a sect."

Day Three. Over lunch some acknowledge the extent to which the course is forcing them to reassess their ideas. "I feel like going back to the beginning and starting my business all over again," comments Ian Purdy, a former petrol station manager who has set up a distribution and haulage business.

Some participants on previous courses have changed their business plans half way through. Others have had change forced upon them because customers relationships alter or they fall out with their partners.

Day Four finishes up with a social evening which brings course members together with students from previous years.

Day Five takes the students into book-keeping and simple accounting. The day is designed as a practical exercise with each team given a box of invoices, cheque stubs and bank statements from which they must draw up a picture of the company's position.

Team performance varies. Some deduce that the company is heading for trouble with a large bad debt looming and sales in need of a boost. Others get bogged down in the detail and fail to realise what the numbers are telling them.

Gurling hopes to overcome the problems previous Firmstart participants faced in understanding finance by operating a "buddy" system, teaming each course member with a young accountant from a major firm.

After the gloom of the earlier part of the week a more optimistic mood prevails. The course still has many months to run. There will be short visits back to the classroom but most of the rest of the time will be spent running their businesses.

As important as the technical information they have picked up has been the chance to stand back and consider what they are doing. Lane says he has resolved not to rush at expanding his company until more preparation has been done.

"Most of the information we were given we could have got out of a book," he says. "What was most valuable was being able to ask the questions."

Firmstart courses are run at nine colleges around the country. Contact Manpower Services Commission, Moorfoot, Sheffield S1 4PQ. LBS is at Sussex Place, Regent's Park, London NW1 4SA.

Polish middlemen

A private co-operative to link state enterprises

BY CHRISTOPHER BOBINSKI IN WARSAW

FEW IMAGINED when Andrzej Kaniewski and his colleagues went on trial in 1982 for leading a strike against martial law at Poland's Ursus tractor factory that five years later they would not only be free but participating in rather a lucrative business enterprise. In fact, they emerged from prison in 1984 during one of the post-martial law amnesties and set up Unicum, a co-operative which acts as a middleman between state sector enterprises.

Working on an average 4 per cent commission, Unicum finds customers for end products and looks for raw materials and equipment that companies might need. The opportunity arose with the implementation of economic reforms in the 1980s, when central allocation was removed. Many companies were left adrift with little experience of procurement or marketing.

Increased taxes have been imposed on stocks which means that companies are having to clear warehouses - especially of items no longer needed for current production. In the past, these would have been left to go to waste.

"Anyone could have had the idea," says a Unicum member, Jerzy Diatlowicki. "In fact, it was thought up in Hrubieszow prison." When they came out of prison, they tried to go back to their old jobs on the shopfloor or as engineering designers. But they ran up against a police blacklist. "Really we had nowhere else to go so we had nothing to lose by setting up the co-operative," says one of the ten founders, four of whom came from Ursus.

Unicum was registered in 1984. The participants were mildly surprised at being able to do this, but surmised that the police were happy to have them together where it was easier to keep an eye on them.

Occupations of the ten had little to do with commerce. One had been a journalist, another a sociologist, then there were the Ursus four and Andrzej Machalski, now chairman of Unicum, who had once taught philosophy at Warsaw University.

They started by tramping around from factory to factory simply asking what was available. They also put ads in the papers saying that they could help to provide wanted items. The beginning wasn't easy but the demand was there, and they soon became expert. State companies began applying to them for help.

Despite talk of equal treatment for each sector - state, co-operative and private - officialdom at various levels continues to frown on private companies. State managers, too, fear that they could be suspected of taking bribes if they sell or buy from them.

This is where Unicum comes in. As a co-operative it is officially classified as a "socialised sector" outfit and therefore ideologically clean. State and private sector companies wanting to do business with each other ask Unicum to act as a middleman. They are only too happy to pay the commission.

> Working on an average 4 per cent commission, Unicum finds customers for end products and looks for raw materials and equipment that companies might need.

"It's hard work and filling out the paperwork is deadly boring, but there are the rewards," says Diatlowicki. Unicum has now grown to 40 members and the turnover this year will be zloty 3.5bn ($11.6m).

As Diatlowicki says: "Anyone can set up in this business, we've proved that." Other companies doing the same thing have already been set up. The one which is officially supposed to conduct this trade is Bom, a large state sector company.

But there is one difference: Unicum works on a commission basis. That is the secret of its success. Its members are getting at least three times as much as they could have hoped to earn if they had gone back to their old jobs. Indeed, even in the early months the co-operative decided that a member's commission should progressively decrease after it reached a certain level. This was to avoid attracting attention to high incomes.

Once, a plain clothes policeman detaining one of the members for a few hours on the eve of a planned Solidarity demonstration exploded with surprised fury when he heard how much his victim was earning. But last year, the government imposed a prohibitive tax on any rise in income which was more than 12 per cent over the previous year's earnings. This has effectively meant that Unicum is having to turn away business and its growth will slow.

However, it has responded by setting up joint stock companies under a 1934 company code, still in force, which obliges the courts to register such companies without further permission having to be granted. Companies in their first year are not covered by the wage tax.

By this autumn, Unicum was a majority shareholder in five such new companies. One deals in computer hard and software, another offers architectural services, a couple are simply trading companies like Unicum and one aims to implement new technologies in the energy sector.

However successful these companies may be in providing their employees with a high income, profit taxes in the region of 80 per cent mean that it will still be difficult to generate capital for investment. Another snag is that a recent local government law gives local authorities the right to licence economic ventures in their area. In Warsaw, where Unicum is based, bureaucratic opposition to such initiatives has meant that licences have not been forthcoming.

Nevertheless, some companies have been started. The computer company, for instance, already employs 30 people. Should the local authority complain, Unicum is ready to test the contradiction between the 1934 law and the local government act in the courts.

It is this spirit of defiance which marks out these new style entrepreneurs from Poland's traditional small scale private producers.

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(0902) 57152

Businesses for Sale

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Telephone: Dublin 784833, Telex: 30232 TRCM EI, Fax: Dublin 784029.

Touche Ross
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in Administration

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* Direct investment in the activities of the Club
* The potential of additional leisure facilities at the Club's ground at London Road, Peterborough
* The redevelopment of the freehold site and relocation of the Club

A prior condition of any proposal is that it must safeguard the continuance of league football in Peterborough.

Written enquiries only to:

The Joint Administrators,
Spicer and Pegler & Partners,
Leda House,
Station Road,
Cambridge CB1 2RN

Spicer and Pegler & Partners

Heating and Ventilation Engineers and Fabricators Dunfermline, Fife
Hillend Ventilation Company Limited
(IN RECEIVERSHIP)

The business and assets of this company are for sale as a going concern by its administrative receiver, Mr A R D Jamieson.
This firm of heating and ventilation engineers specialises in the design, fabrication and installation of warm air heating systems and ventilation systems. Kitchen canopies a speciality.

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- Reputation for high quality and reliability.

For further details contact: A R D Jamieson or G I Barnett at: Price Waterhouse, 28 Drumsheugh Gardens, Edinburgh EH3 7RN. Tel: 031-225 4242. Telex: 727404. Telecopier: 031-225 3852.
Or at: Hillend Ventilation Company Limited, Ridgeway, Hillend Industrial Estate, Dunfermline, Fife KY11 5JE. Tel: 0383 823071. Telex: 727788.

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ABERDEEN,
AB1 1YL,
Ref: E.A.
Tel. 0224 574007
Telex 739067
Fax 0224 575183

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The company employs approximately 30 achieving an annual turnover of approximately £1.5 million.

For further details contact Stephen J. Hall or the Joint Administrative Receivers, Richard A. Smart or Timothy R. Harris at: Deloitte Haskins & Sells, Tudor House, 16 Cathedral Road, Cardiff CF1 6PN on (0222) 239944.
Telex 498109.
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For further information, please contact the Joint Administrative Receiver:
Alastair Jones

KPMG Peat Marwick McLintock
45 Church Street, Birmingham B3 2DL
Tel: 021-233 1666 Telex: 337774 Telefax: 021-233 4390

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Gloucestershire

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Fax (0222) 238838.

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The Oasis Collection

Business and assets for sale.

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SE1 7EU. Tel: 01-928 2000.
Telex: 885234. Fax: 01-928 1345.

Ernst & Whinney
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(IN ADMINISTRATION)
(A.C. SCHEELE APPOINTED ADMINISTRATOR 30th OCTOBER 1987)

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Ernst & Whinney, 30 Garrard St.,
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Legal Notice

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF
TRANSFESA TERMINALS LIMITED
AND
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the order of the High Court of Justice (Chancery Division) dated 26th October 1987 confirming the reduction of the capital of the above-named Company from £1,630,898 to £200,000 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 4th November 1987.
DATED this 17th day of November 1987
Masons
3 Bolt Court, Fleet Street
London EC4A 3DQ
Solicitors for the above-named Company

The Insolvency Act 1986 in the matter of: TICKHILL GARDEN CENTRES. Nature of business: Sale of plants and garden requisites. Administration Order made 5 November 1987. D J Stokes, Administrator.

Company Notices

SOCIETE GENERALE
$US 200.000.000
SUBORDINATED FLOATING RATE NOTES DUE 1994

For the six months, November 9, 1987 to May 8, 1988, the rate of interest has been fixed at 7 1/2 % P.A.

The interest due on May 9, 1988 against coupon nr 7 will be $US 379,16 and has been computed on the actual number of days elapsed (182) divided by 360.

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
LUXEMBOURG

Obituaries

CHRISTOPHER KAROUBIG - BAGEN (Count Von Wittelsbach) on November 8th 1987, died at Queen Mary's Hospital, Roehampton. Dearly loved and missed by many friends and family. Funeral private, memorial service to be announced. Correspondence care of Lauraine Cabora, 214 King St, London, W.6. Flowers for funeral on Wednesday November 18th care of Paines, Funeral Directors, 29 Coombe Rd, Kingston-upon-Thames, KT2 7AY

FOR SALE Corporate Communications Company

Located in the South of England, this company specialises in Video and film production on behalf of corporate clients. Profits for the current year are anticipated to be in excess of £250K.

For further details please write to: Box H2794, Financial Times, 10 Cannon Street, London, EC4P 4BY

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- Profits around £0.2m
- Excellent management and prospects
- Based in the West
- Principals only

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and
DIY RETAIL OUTLET
(North West of England)
FOR SALE AS A GOING CONCERN
Substantial Freehold Property with Potential

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- Principals only need reply

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Telex: 28984.

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For further information contact the Administrative Receiver, C.R. Ashurst

Neville Russell
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Freehold property in South Hampshire.
Plant and equipment a book value £6,000.
Stock book value £120,000.

Forecast annual turnover for 1988 is approx. £650,000. Main activities are the supply of parts and components to the motor trade.

For further information contact J. E. Macmillan, Grant Thornton, Enterprise House, Isambard Brunel Road, Portsmouth PO1 2RZ. Tel: (0705) 750175. Telex: 869112 Fax: (0705) 825356.

By Order of The Liquidator, P Lyon, Esq., of Hewson Lyon; and Nottonstone Ltd re: Vine Master Ltd (In Liquidation)

Retail WINE MERCHANTS

FREEHOLD OUTLETS
Oxford, Colchester, King's Lynn
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ARTS

Barbican Art Gallery/Susan Moore

Less Edwardian pomp than circumstance

Rarely has a poster summed up an exhibition so accurately, or the cover of its catalogue been so misleading. The poster advertising "The Edwardian Era" (at the Barbican until February 7) is a monochrome mock-up of a period illustrated magazine. Streamered "Processions demand reform, and challenge the establishment," its largest illustration is a photograph of the suffragette Mrs Pethick Lawrence, one of the Holloway prisoners, distributing leaflets in 1909. On the cover of the catalogue is a detail of Sargent's dazzling "The Sitwell Family." Visitors anticipating an evocation of an opulent Golden Age of Souls, Saturdays-to-Mondays, Ascot and Cowes, will be sorely disappointed. This view of Edwardian England is less Elgar's "Pomp and Circumstance" than Ethel Smyth's "March of the Women" - or the Black composer Samuel Coleridge-Taylor's "Hiawatha."

The exhibition begins, uncontroversially enough, with Coronation portraits of Edward VI and Queen Alexandra, and Frederick Morgan and Thomas Blinks's more informal outdoor portrait of the Queen surrounded by grandchildren and dogs. Next comes Edwardian "society," represented in a show that claims over 1,000 exhibits by only a handful of portraits - and even fewer painters. Given that the upper classes are so meagrely represented - and the vast numbers of nouveau riche millionaires not at all - why present us with Sargent's "The Acheson Sisters" which we have seen oh so many times before?

Why, too, has the exhibition designer attempted to recreate a sense of period interiors when the architecture and proportions of the Barbican galleries defy such imaginative leaps? "The Acheson Sisters" is virtually the height of its papered wall, appearing inches away from the ugly concrete and glass coffered ceiling. Giving the galleries more drapery swags than an interior decorator's showroom is hardly convincing compensation.

Set against the tapestries, furniture and porcelain of Renishaw, the Sitwells at home make *fascinating viewing* - not least as a timely postscript to the Academy's exhibition on their Plantagenet forebears. Edith, in brilliant scarlet, stands beside her father; the present Sir Sacheverell, now 90, is playing on the floor with toy soldiers. Nothing is said about this extraordinary family, or about the roots of these images in the reassuring tradition of 17th and 18th century portraiture.

In fact, nothing was explained at all, at least on press day. Few exhibits were labelled and only one or two information boards up. At times it was impossible to know exactly what one was looking at, or why it was there. (I did ask about an intriguing photograph of two dozen young men holding babies, and was told that it depicted students of Dublin Maternity Hospital and showed that Black professionals did exist in Edwardian Britain.)

One of the strengths of this exhibition - which is soon revealed to be social history not art history - is the variety of photographs, postcards, posters, banners, songsheets, commemorative ware and other ephemera that organisers Jane Beckett and Deborah Cherry have unearthed to document their chosen themes. It is also one of its weaknesses. The inherent drawback of juxtaposing a broad range of material is that the galleries cannot but look messy. The section on London, for example, is a melee of etchings, underground posters, photographs, watercolours, and architectural drawings of LCC housing, loomed over by Lund's vast painting "Heart of the Empire" (a birds-eye-view of the City), a 1904 Vauxhall Motor Car and a replica of Blériot's pioneering aircraft.

The other weakness is not so much the choice of themes but their emphases; a foregrounding of the background, if you like. We find a section on the labour and trades union movements devoted to Black politicians. In "Empire: Imperialism and Anti-Colonialism" it is the Pan African Congress and Irish Home Rule versus white supremacy and economic exploitation which is epitomised by the Delhi Durbar and the unattractively supercilious Governor of Malaya, Sir Frank Swettenham (again by Sargent). He definitely scores an own goal.

Even "Theatre and Music Hall" transpires to be less a joyful celebration of the great years of theatre building and legendary "turns" than a dreary account of The Actresses Franchise League, Black entertainers, and the Music Hall Strike of 1907. Later we learn of the hard lot of gleaners and fishwives - all interesting stuff - but what about farm labourers and fishermen?

The organisers aim to show the extremes of Edwardian Britain, great wealth and abject poverty, life in the city and the country. Augustus John's barefoot women and children - unfeelingly entitled "Decorative Group" - is a cruel contrast to Charles William Furse's chocolate-boxy "Diana of the Uplands," an aristocratic young women *walking her greyhounds* without a care in the world. A romanticising, nostalgic view of the countryside emerged during the Edwardian era to blur the harsh realities of agricultural depression (its best witness is "Country Life"). The land was seen to provide a wholesome way of life, and the countryside to uphold an old and stable social order.

There are sections in the show on agriculture, and back-to-nature experiments such as the foundation of the first garden city, Letchworth, in 1903 (a reaction against urban conditions associated with the vegetarian and temperance movements), and the establishment of various artistic colonies in the depths of the countryside or beside the sea. But there is little evidence of the country retreats - let alone the great country houses or Wrenaissance office buildings - built by Sir Edwin Lutyens et al - or the romantic gardens designed around them by Gertrude Jekyll. The only country house I saw was John Knowle's Mellerstain. It is an appalling omission in a survey of Edwardian life - as Guy Dawber wrote in 1908, probably more country houses were being built than at any time since the days of the Stuarts.

One of the more coherent and successful sections devised is that devoted to home and family. William Rothenstein's cossetted middle-class children in his marvellous "In the Morning Room" are encouraged to play and dress up - John is an Indian chief. No such luxury could ever have been conceived by the children who were forced into sweated labour. Could their mothers have understood the sentiments behind Gotch's iconic "Holy Motherhood"?

The decade 1901-1910 was a watershed of the modern age. A technological revolution had brought about rapid and unsettling change, and social and political unrest. Edward VI's reign witnessed feminist campaigns around sexuality and work, as well as votes for women; the labour and anti-colonial movements; and "Bread for Our Children" *marches*.

Jane Beckett and Deborah Cherry, admirably, have attempted to penetrate the romantic gloss and sense of stability popularly attributed to the Edwardian era. Or, as they put it in the catalogue (which, incidentally, bears little relation to the exhibits), "a white, imperialist and patriarchal visual mythology." What they have succeeded in doing is substituting one distorted view with another.

"Industrial Victims!" - a poster issued by the Labour Party

BBC Symphony/Festival Hall

Andrew Clements

With Shostakovich very much the flavour of November on BBC television, the BBC Symphony Orchestra's Festival Hall concert on Sunday evening followed the fashion with a performance of the Fourth Symphony. The conductor was Richard Buckley, and he prefaced the symphony with two American works, Samuel Barber's Violin Concerto and the first British performance of the Fantasia on an Ostinato by John Corigliano.

Corigliano's standing is high in the United States at present; he is currently composer-in-residence with the Chicago Symphony Orchestra, and his works are gaining many performances across the continent. The reasons for that success are both understandable and uninspiring: Corigliano writes music of eclectic attractiveness, professional accomplishment and *minimal* substance.

The Fantasia demonstrates that well-calculated melange *painfully* well. The ostinato of the title is that from the second movement of Beethoven's Seventh Symphony; though it is quoted literally on several occasions, and brought back with wearisome predictability for the closing pages of the work, it functions as little more than a peg on which to hang a sequence of grandiloquent and superficially ear-catching gestures, which demonstrate a gifted ear for a well-turned texture but little else.

In the Barber concerto the soloist was the BBCSO's co-leader Rodney Friend, and both he and Buckley seemed keen to play down the work's frank romanticism and emphasise instead its neoclassical traits. With thinned, brittle textures and tight-clipped rhythms it seemed a good deal closer to the perky, New Deal populism of the late 1930s that composers like Copland purveyed then, and less a late and highly personal flowering of the European concerto tradition. But in Americanising the work it lost a good deal of its expansiveness; the net result suggested a *diminution rather* than a reassessment.

Reassessment has become a constant element in the reputation of Shostakovich's Fourth Symphony. Tarred by the same Stalinist brush that destroyed *Lady Macbeth of Mtsensk*, it went unperformed until 1961, 25 years after it was written, and in the concert hall has never really attained secure status in the Shostakovich canon. Buckley's account - well prepared, carefully plotted - was not the major act of vindication the work perhaps deserves, but it served as another reminder of the sharp vision of Shostakovich's music of the 1930s, and how the expressive elements that were to gain offical approval for the Fifth were present in nascent form in its predecessors, though "just criticism" might have hastened their refinement. The striking features of the Fourth - the boundless Mahlerian marching of the first movement, the haunted coda to the finale, and the massive tragic scale of the whole ambitious structure - remain undeniable however, and the BBC Symphony's realisation of them, led by high-profile wind solos, conjured a gripping and involving pageant.

Takacs Quartet/Wigmore Hall

Andrew Clements

It was Neville Cardus who suggested that performances of Schubert's C major String Quintet should be annually rationed, so that its unique greatness should not be devalued. At present, however, it is Schubert's D minor String Quartet which is in need of some control, for almost every string quartet that visits the Wigmore Hall seems to feel the work offers the best possible exposition of its particular talents. The latest to do so is the excellent Takacs Quartet, whose praises have often been sung on this page; "Death and the Maiden" made up the second half of their recital on Saturday evening.

The Schubert proved to be the least impressive element of the recital, though it was deficient only by the exceptionally high standards set by the earlier performances. It is hard to remember an account of Bartok's Sixth Quartet in the concert hall that encompassed so many of the work's complex of facets, that realised the biting satires of the central movements as pungently as it charted the growing intensity of the *Mesto* introductions, and that controlled the thematic flux of the first movement as surely as it directed the lingering regret of the finale.

In Beethoven's C minor Quartet Op.18 no.4 the bracing combination of immaculate ensemble - spell-binding chording in the inner parts - and buoyant, fresh-minted phrasing gave the music-making a constantly renewable fascination. The Takacs evidently takes no purist line on the question of repeats - in the Beethoven they were minimised, perhaps even under-used in the scherzo, and neither outer movement of the Schubert took the exposition reprise. Whether greater length would have provided that work with more cumulative force is debatable; the Takacs' tempi were never slow, and a sense of shape always informed their playing, but their grip on the drama of the first movement was never tight, and the virtuosity in the finale was almost consciously suppressed. Tragedy reflected in tranquillity is not quite enough in this work.

Mikhail Pletnyev/Wigmore Hall

Max Loppert

Pletnyev, who won the 1978 Chaikovsky Competition, returned to London a year ago after a long absence, and won glowing praise for the brilliance and fine finish of his piano playing. He is back here for a round of recitals and concerto performances, and will no doubt continue to arouse enthusiasm.

He deserves to. It is indeed a rare pleasure to encounter such a formidably equipped pianist. The best of his Sunday afternoon recital had that proud surge peculiar to the grandest Russian playing. In a closing group of Rakhmaninov Op.23 Preludes, for instance, the big B flat was given an irresistible clarion boldness, scaled and delivered with authentic virtuoso freedom. The sheer "school" of Pletnyev's fingers, the variety and careful adjustment of weight and touch, elicited their own admiration - the half-staccatos, each one immaculately placed, in the opening bars of the *Waldstein* Sonata or the superbly clear voicing of chord sequences in Debussy's *Pour le piano* were among the many tokens of technical excellence that one duly and properly relished.

There was, however, a strange and at times disquieting disparity to be sensed between the maturity of the fingers and the incompletely formed quality of the imagination. Much of Pletnyev's Beethoven reading was of curiously indeterminate character, super-streamlined but essentially neutral; one had no idea what he felt about the music, whether indeed he felt anything at all about it. (The refusal to obey Beethoven's pedal markings in the finale was both revealing and disappointing.) The intimate inner movements of Schumann's *Faschingsschwank aus Wien* passed by with hardly a note of affectionate recognition.

It was as though Pletnyev harbours an abiding suspicion of romantic gesture or rhetoric. The cool eloquence and beauty of his Debussy playing reinforced the suggestion - this was music perfectly attuned to his fingers and imagination alike, and its performance was breathtaking. It will be interesting to see and hear how this remarkable young pianist develops.

Don Quixote/Antwerp

Clement Crisp

Danilo Radojevic and Maria Teresa del Real

The Royal Ballet of Flanders has lately begun its 19th season at its home theatre, the Opera House in Antwerp. Founded in 1969 by Jeanne Brabants, the company has toured extensively, visiting America and China and, in 1980, appearing at Sadler's Wells. Mme Brabants was succeeded as director by Valery Panov in 1984, and early this year the direction of the company was given to Robert Denvers, who now starts his first full season in command of the ensemble. A former dancer with Maurice Béjart, and for the past decade a teacher highly respected in Europe and America, Mr Denvers seems already to have made his mark upon the company's identity. The performance of *Don Quixote* that I saw at the week-end in Antwerp showed a troupe youthful, eager in accepting the challenges of the piece.

This *Don Quixote* is Rudolf Nureyev's account of the old war-horse, which he has galvanised into putting its best foot forward. *The narrative, as we know* from every current production, is an insult to Cervantes, as crazed in its illogicalities as the *Don is in his dreams of chivalry.*

Nureyev's solution is to accept the fact that the piece will never make sense as drama, but by *stuffing it full of dances* he knows that the public, and the cast, will be kept so busy watching steps that the lunatic nature of the story can pass almost unnoticed. So it has proved at the Paris Opera, and so it proved on Saturday in Antwerp's delightful late 19th century Opera House.

The production has been skilfully adapted to the Flanders Ballet's forces of some sixty dancers who must travel at home and abroad for part of the year. There are simple, attractively literal sets by Roger Bernard in collaboration with Alain Vaes, and delicious costumes in reds, mauves, magentas, by Anna Anni, which give the ballet an added liveliness of aspect.

Foolish though *Don Quixote's* action may be, the Flanders cast take to it with unabashed zest. They look alert, and the first act's pimento-flavoured capers - the ballet is here really a danced zarzuela - are as lively as one could wish. I saw the heroine, Kitri, interpreted by the American dancer Maria Teresa del Real, her secure, easy technique and musical sensibility giving the role an unaffected charm. She will, I hope, learn to flirt *even more with the dance* - after the manner of Maximova, Makarova and Semenyaka, who show that it is all a huge joke that *they can share with us and their* Basilio - and enjoy Kitri as champagne rather than some rougher Spanish vintage.

Her partner was a guest from American Ballet Theatre, Danilo Radojevic, who has the bright bravura for Basilio's variations - and Nureyev's staging is writ large with its creator's delight in doubling and re-doubling the hurdles the danseur must overcome. Radojevic sails through each devilish moment with insouciant gaiety, and I also admired the panache of Pierre Bos as Espada in partnership with the fetching Michele Goyens as the Street Dancer.

To hold the middle act together needs the grandest resources of a big company, so that the gypsy scene has the right raggle-taggle abandon and the academic predictabilities of the dryad sequence appear glassily assured. The Flanders dancers make good sense of these incidents: Edwin Mota, on whose exceptional graduation performance at the School of American Ballet I reported three years ago, whiplashes through the gypsy encampment with plenty of temperament, while the dryads are neat, if not especially gaudy in style, and well-disciplined.

The last act is well done by its principals and by the company, albeit Kitri's demure white costume is the one dull outfit on the stage - she seems as if she is going to her first communion rather than her wedding. The *dancing is joyful, without too* much tinsel to make the finale look more Brummagem than Barcelona, and Minkus' enduring tunes and the dancers' fireworks cast their familiar merry spell over the public. The staging has encouraged the company to work *happily*, and *they have* responded happily to it.

The Island of Doctor Moreau/York

B.A.Young

Liz Brailsford's adaptation of Wells's novel has avoided the temptation to put any post-Wellsian politics into it and make Moreau a proto-Stalin or Hitler. She has kept firmly to the book, and her doctor's horrid practices of vivisection and hypnotism, used to turn wild creatures into imitations of humanity, are aimed only at physiological targets.

The production at the Theatre Royal, directed by Andrew McKinnon, is in one act 90 minutes long. *It incorporates* the main events of the novel, but has to hurry over them a little. The lights go up on a line of respectable Victorian scientists, the narrator Prendick (Stefan Escreet) at one end, and an enamel wash-basin on the floor in front of them. We are then precipitated into a smoky shipwreck where the crew rely unexpectedly on lines from *The Tempest*.

When the storm has passed, Prendick is a castaway, the scientists have become ragged, misshapen half-humans, dressed in *rags devised for them by* designer Don Alderson, who has also dressed the stage in atmospheric green triangles, and the real tale begins. The wash-basin is used by a disobedient half-human to lap water from, when he knows that "not to suck up water" is one of the master's laws, like "not to go on all fours." If you break the laws, you go back to the house of pain, the bush surgery where Moreau (Geoffrey Banks, clinging to a frock-coat) performs his experiments.

We are given a brief sight of one such experiment, that has long been painfully audible - a puma strapped to a globular metal frame and already almost man-shaped under its bloody bandages. But there is trouble among the more wholly completed, when the remains of a half-eaten rabbit are found, "not to eat flesh or fish" being part of the law. The culprit, converted from a leopard, reverts to savagery. Only lethal action by *Prendick and Moreau's drinking* assistant Montgomery (Colin MacLellan) prevent a rising.

And then the puma, after *reluctantly doing some tricks for* Moreau ("Walk; Talk"), kills him. From there on, reversion is inevitable. Montgomery gives the *creatures some of his whisky and* joins them in pandemonium. Prendick survives this for nine months, is rescued, and believed mad.

It would be wrong to think that this production aimed at anything but excitement, and there it certainly succeeds. Three rows behind me were packed with teenagers, the kind you seldom see at theatres, and they were quiet and attentive all the time. That alone justifies the evening; but it is not for teenagers only. There are quotations from Darwin and Huxley in the programme that may indicate some lines of thought.

Arts guide

November 13-19

Music

LONDON

Royal Opera Covent Garden. Further performances of the new production by Elijah Moshinsky of Die Entfuehrung, the first to be presented in this house. Georg Solti conducts, and the cast includes Magda Nador, Deon van der Walt, Lillian Watson, and Kurt Moll as an incomparable Osmin.

English National Opera Coliseum. The latest Jonathan Miller production for the ENO is a new Barber of Seville, a much needed renewal of a house staple. Della Jones, Britain's leading Rossini mezzo, heads a cast including Patrick Power, Alan Opie, Rodney Macann, and John Connell; Mark Elder conducts. Also in repertory are further performances of the latest revival of Miller's Mafia style Rigoletto, with John Rawnsley returning to the title role, and of the musically stylish, dramatically disappointing new Pearl Fishers, redeemed by Bizet's beautiful score *and the excellent singing* of Valerie Masterson, Adrian Martin, and Anthony Michaels Moore.

Royal Ballet Royal Opera House, *Covent* Garden. A Stravinsky triple bill on Friday with Bernard Haitink conducting. "The Dream", "Galanteries" and "The Concert" are at *matinee* and evening on Saturday, and then "Swan Lake" is performed on Tuesday.

London Contemporary Dance Theatre Sadler's Wells, Roseberry Ave. The autumn season starts with performances of Robert Cohan's new "The Phantasmagoria".

PARIS

Trisha Brown Dance Company. Starting from the legendary "Judson Church" studio, Trisha Brown has progressed from an austere abstraction to a more winsome theatrical expression. Theatre de la Ville (42742277).

Denmark's Royal Ballet produces La Sylphide with Ib Andersen at the Theatre des Champs Elysees (47208637).

Rosalind Plowright in the title role of Bellini's Norma, tragic and romantic Pier Luigi Pizzi new production. Alternates as before with Magnificat at the Paris Opera (47425371).

Peter Maxwell Davies' Cinderella turned into an exploited au pair girl is in an "Opera Jeune Public" at the Opera Comique (4742537l).

Porgy and Bess at the TMP Chatelet.

NETHERLANDS

Scheveningen Circus Theatre. Swan Lake, with the Ballet and Orchestra of the Prague Opera (Mon).

Amsterdam Muziektheater. The National Ballet company with the world premiere of a new ballet by Toer van Schayk, Diamonds (Tchaikovsky/Balanchine), and Vier lezte Lieder (Strauss/Van Dantzig) (Mon, Wed, Thur). Donizetti's Don Pasquale performed by the Netherlands Opera directed by Renate Ackermann; Bruno Campanella conducting the Netherlands Philharmonic, with Henk Smit, Christine Barbaux, William Shimell and *Raul Gimenez (Tue)* (255 455).

Eindhoven, Schouwburg. The Royal Ballet of Flanders with Me and My Girl (Thur) (11 11 22).

NEW YORK

Metropolitan Opera. Fabrizio Melano's new production of Il Trovatore highlights the week Richard Bonynge conducts, with Joan Sutherland, Florenza Cossotto and Luciano Pavarotti. Continuing are Franco Zeffirelli's production of La Boheme conducted by Julius Rudel with Roberta Alexander and Brian Schnexayder, Otto Schenk's production of Die Walkuere, conducted by James Levine with Hildegard Behrens, Timothy Jenkins and Hans Sotin, and Franco Zeffirelli's *production of Tosca, conducted by* Christian Badea with Eva Marton, Sherrill Milnes and Italo Tajo. Lincoln Center (Opera House)(362 6000).

New York City Opera. The final production of the season is a double bill of Mozart's The Goose of Cairo and Oliver Knussen's Where the *Wild Things* Are. *Lincoln Center* (870 5570).

Joffrey Ballet. The month long schedule has three premieres including a Robert Joffrey Nutcracker, Nijinsky's Le Sacre de Printemps and Three Preludes by Ben Stevenson set to Rachmaninoff, along with Frederick Ashton's La Fille Mal Gardee and nearly two dozen repertory favourites. Ends Nov 22. City Center 55th e. of 7th Av. (947 58580).

New York City Ballet. Highlights of the three month winter season include the return of George Balanchine's three act Jewel as well as *Bugaku, Divertimento, Raymonda* Variations and Symphony in C; Jerome Robbins' Piano Pieces, The Cage and The Concert and Peter *Martins' Ecstatic Orange. Ends Feb* 21. Lincoln Center (496 0600).

WASHINGTON

Washington Opera. *Madame* Butterfly conducted by Guido Ajmone Marsan with Yoko Watanabe in the title role joins Romeo et Juliette conducted by Cal Stewart Kellogg, featuring Angela Maria Blasi and Neil Wilson in the title roles. Kennedy Center (Opera House) (254 3770).

ITALY

Rome. Autumn season opens with Rimsky-Korsakov's "La Sposa dello Zar" *conducted by Mstislav Rostropovich* and directed by Galina Visnevskaia, with scenery and costumes by Zack Brown. The case includes Lajos Miller, Stevka Mineva, Dimiter Petkov and Viaceslav Polozov. (Tues and Thurs) (46.17.55).

Bologna Teatro Comunale. Season *opens with a new production* by Pierluigi Pieralli of Wagner's Das Rheingold, sung in German by Hermann Becht, Anne Gjevang, James Johnson, Helmut Pampuch and Hermann Winkler, conducted by Peter Schneider. (Tues, Thurs) (529999).

Florence Piccolo Teatro. Two ballets, performed for the first time this season "Il Buffone" by Egon Madsen, to music by Prokoviev, and "Six Characters in Search of an Author" by *Orazio Messina*, based on the Pirandello Play with Music by Respighi (Sun, Tues, Wed, Thurs).

Turin Teatro Regio. Wagner's Siegfried conducted by Zoltan Pesko and directed by Gianfranco de Bosio, with scenery by the Hungarian designer Attila Kovacs and costumes by Zantuzza Cali. Largely German cast includes Gerd Brenneis, Graham Clark, Boris Bakov, *Otrun Wenkel* anmd *Anne Evans* (Brunnhilde). (Sun, Thurs) (548.000).

Trieste Teatro Communale Giuseppe Verdi. Pietro Mascagni's "L'Amico Fritz" in its first performance here for over 30 years. The conductor is the young Italian Evelino Pido and the director is Mario Zanaotto. In the cast are soprano Cristina Rubin and Pietro Ballo (Fri, Sun, Wed) (631948).

Rome Teatro Olimpico. Carolyn Carlson in "Solo" (Blue Lady); choreography by Carolyn Carlson and Music by Rene Aubry (Wed, Thurs) (393304).

WEST GERMANY

Berlin *Deutsche Oper. Lichtknall*, a ballet specially composed by Erhard Grosskopf for the 750th anniversary of Berlin, will have its world premiere this week. Choreography by by Lucida Childa, costumes by Achim Freyer. Soloists are Betrice Belando, Dianne Bell, Katalene Borsboom, Raffaella Renzi, *Yannick Boquin, Tomas* Erdosi, Lubomir Kafka and Jan Vandeloo. Der Fliegende Hollander features Janis Martin, Bengt Rundgren, Toni Kramer and Robert Hale.

Hamburg Staatsoper. Don Pasquale; a Franz Marijnen's production with the cast including Hellen Kwon, *Paolo Montarsolo, Urban Malmberg* and Kurt Streit. The Marriage of Figaro brings Linda Plech, Christina Hogman, Deborah Massell, Ger*trud Hoffstedt, Thomas Lander and* Ralph Houston together.

Frankfurt Opera. John Cage's operas Europeras 1 and 2 will have its premiere this week. He will also be the producer. In the main parts are Harolyn Blackwell, Michal Shamir, Eliane Coelho, June Card and *Seppo Ruohonen. Also in the* repertory Iphigenie in Aulis and Iphigenie auf Tauris, and Cosi Fan Tutte, all conducted by Gary Bertini.

Cologne Opera. The week starts with two Puccini operas Eine Florentinische Tragodie/Gianni Schicchi. Also Pique Dame with Nadine Secunde, Josef Protschka and Wolfgan Schoene. Die Zauberfloete rounds off the programme.

Stuttgart Wurttembergisches Staatstheater. Otello has Gabriele Benackova, Vladimir Atlantow and Roland Bracht. Die Entfuehrung aus dem Serail stars Krisztina Laki, Marianne Hirsti and Helmut Berger. Die Soldaten with Nancy Shade, Milagro Vargas, Grace Hoffman, *Klaus Hirte and Raymond Wolansky* in a Harry Kupfer production.

Saleroom/Antony Thorncroft

Good prices for science

Sotheby's claimed that its sale of scientific instruments yesterday was its best ever, and so it proved. This is still a restricted market, dominated by dealers but with keen private collectors especially in the US and on the continent. It was two continental buyers who set the pace, one paying £181,500 for a rare object made in Prague in 1597 by Eramsus Habermel. This was more than double the previous best auction price for a scientific instrument.

The object was a gilt and brass combined astronomical compendium and book binding. In essence it combines all the relevant astronomical information available at the time with the scientific instruments, such as a compass, needed to make the calculations. These are embedded in the book binding. The top estimate had been £60,000. It had been in the collection of the late Rudolf von Gutmann. Also from his collection was a gilt brass and ivory diptych dial made by Paul Reinmann in Nuremburg in 1606. This was also used to tell the time and carried a top estimate of £8,000. But two collectors were desperate to acquire it and the price soared upwards to £57,200.

Perhaps the most beautiful item at the auction was a silver and gilt brass universal equinoctial dial made around 1715 by John Rowley, who was the Master of Mechanics to King George I. When the King journeyed to his former home in Hanover the dial would enable him to correct the time in the towns he passed through on the continent. In effect it was a portable sundial. It carried a top estimate of £60,000 but went to another continental collector, in fact the one who bought the Reinman dial, for £68,200.

The New York salerooms finished their busy week selling off Impressionist and modern art on a high note. There may be more reluctance after the global stock exchange fall to buy expensive oils which are not quite of the highest quality but demand for watercolours, drawings and, in particular, prints is outstanding.

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Tuesday November 17 1987

Rules for the global market

INTERNATIONAL co-operation between securities market regulators has been making steady progress in the past few months only to be suddenly confronted with a whole new set of problems following the crash of the global equities market.

In one sense the process of globalisation has received a sharp setback because the shock and uncertainty have caused a widespread retreat by investors to their domestic markets. Meanwhile, the regulators themselves are diverted by their own national priorities. In the US, for example, the Securities and Exchange Commission is mounting an investigation into the crash. In these circumstances, long-drawn-out global regulation issues are bound to be set on one side.

But it would be unfortunate if the delays were to be severe, because the infrastructure of global markets continues to exist - indeed, it is still developing fast - and activity will pick up again as confidence is restored. So it was encouraging that highly positive notes were struck in London last week by two key regulators - Mr Joe Grundfest, one of the five Commissioners of the SEC, and Mr Francis Maude, the Trade and Industry Department minister most directly concerned with securities market regulation.

The strident tone which tended to feature in SEC pronouncements on international issues a few years ago was entirely missing from Mr Grundfest's speech. The preoccupation with Swiss banking secrecy and UK blocking legislation has been replaced by quiet co-operation through, in the case of the UK, a so-called "memorandum of understanding." The exchange of information has become a two-way process, highlighted by the SEC's role in the investigations leading to the Guinness prosecutions.

Next milestone

Roughly similar arrangements have been constructed between the US and both Canada and Japan, and Switzerland has entered into rather more restricted assistance agreements regarding insider trading and other criminal matters. Mr Maude outlined Britain's progress in signing such agreements with other countries - including Japan last May - and a second generation of memoranda of understanding is being prepared which will involve the new regulatory layers being established under the Financial Services Act.

The next milestone, due in February or March next year, is expected to be the third meeting of the "Wilton Park" group, an informal conference of international regulators. The aim will be to exchange views and explore the possibility of extending and enhancing the various bilateral agreements. Beyond that, it would be logical to expand the memoranda and treaties into a proper multilateral agreement. But national laws and regulatory systems are so different that progress to this level is bound to be very slow.

Yet the recent crash may have the effect of concentrating the minds. It will both add an element of urgency and serve to divert attention from the headline-grabbing criminal cases - however useful these may be in putting international regulatory co-operation on the map - towards more basic questions of solvency and orderly trading in securities markets.

Major distortions

By the late winter the scale of the damage caused by the violent market movements during October will have become clearer. There will be better formed views of the role of computerised programme trading in exacerbating the collapse and of international securities traders in transmitting it around the globe.

It will never be the job of regulators to prevent markets fluctuating but they have a duty to find out whether the recent events were wholly extraordinary, or whether the sophisticated global trading markets have a built-in tendency to wild swings.

If so, the systems and the securities firms will have to be made sufficiently robust, which will involve much tougher capital adequacy requirements than those imposed up to now. This will involve close international co-operation, given that any divergencies between major centres in these matters would lead to major distortions of the pattern of trading.

The Cooke Committee of bank supervisors was set up partly in response to the wave of bank failures in the mid-1970s. Co-operation by international securities market regulators needs to anticipate rather than follow events.

Franco-German co-operation

IT IS EASY to be sceptical about the latest institutional moves by France and West Germany to intensify their bilateral economic and defence co-operation.

The creation of joint ministerial committees to co-ordinate economic and defence policies, announced at the end of last week's Franco-German summit in Karlsruhe, is intended to give the impression of breaking new ground. Yet the framework for close co-operation between Paris and Bonn, the Franco-German or Elysee Treaty, has existed for as long as 25 years, and has provided for regular summit and ministerial meetings in all areas of bilateral relations.

Why, in that case, is it considered necessary to create yet more bilateral institutions, particularly at a time when it can be argued that energies should be devoted to co-ordinating policies at a European Community level rather than between only two members, however important?

The answer is to be found in the deeply-held conviction of both governments that a close Franco-German relationship is an essential precondition of any effective common European policy and that recent economic and defence developments call for urgent joint action.

Strong echo

The steps for a greater co-ordination of policies taken at the Karlsruhe summit are a response to what are perceived by the two governments as a growing gap between US and European interests. Both Paris and Bonn have been critical for a long time of Washington's failure to bring the US budget deficit and balance of payments under control and have put much of the blame for the recent stock market crash on the US Administration's policies.

Similarly, the traditional Gaullist view, espoused by successive French governments, that the US cannot be relied on indefinitely to assure the defence of Europe, has recently found a strong echo in West Germany.

The imminence of a medium-range nuclear missile deal between the US and the Soviet Union and the fear that Germany would become the main battleground of any conflict fought with tactical nuclear weapons has provoked feelings of bitter disappointment with Washington's policies among conservatives in Bonn.

All these factors provide a political and psychological incentive for greater co-operation between the two main continental European powers which is not difficult to understand. What is less obvious is whether anything quite tangible can be achieved as long as the fundamental economic and defence policies of France and West Germany are still as different as they are at present.

Defence doctrines

In the economic field, the Bundesbank and the Bank of France set a useful example of co-operation quite recently when they made co-ordinated interest rate adjustments to keep their currencies within European Monetary System margins.

However, these are technical decisions for which the central banks do not need another special committee. What will be much more difficult to settle is the argument over basic economic philosophies which, as often as not, has found Paris ranged with other industrial countries in the camp urging West Germany to adopt more expansionary policies.

The gap between the defence policies of the two countries is even wider. It is all very well establishing a joint Franco-German brigade but it can never be employed effectively until Paris and Bonn have reconciled their defence doctrines.

West Germany's membership of Nato and France's independent national defence policy have created an imposing obstacle to any integrated military activities.

Yet the practical difficulties that lie ahead should not be allowed to detract from the political determination shown by the two governments to co-operate in dealing with the new problems created by the stock markets' crash and the projected Euromissile agreement.

President Mitterrand has stressed that he considers the reinforcement of the EMS as one way of increasing Europe's cohesion and weight in international affairs. That is a political consideration which the UK Government should also have in mind when deciding on whether to join the European exchange rate mechanism or any European collaborative military venture.

The stock market crash has dealt a blow to popular capitalism in France. Ian Davidson, Paul Betts and George Graham say it has also changed the ground rules for next year's presidential election

Trying to make sense of the crash: Edouard Balladur, Jacques Chirac and Raymond Barre

Scattering in search of cover

WITH characteristic Gallic flair, the French are turning the international financial crisis into a drama all their own.

Mr Jacques Delors, president of the European Commission, has scandalised his Socialist friends by offering himself on a popular French television chat show as a possible Prime Minister under a right-wing President. The leaders of the feuding factions of the country's right-wing majority have used the crisis to blast invectives at each other. One normally staid business publication advertised its latest issue by plastering posters around the Finance Ministry, housed in one wing of the Louvre, with the question: "Demain la Recession?" in big black print.

On the surface, the international stock market crisis has affected France no worse than any other major industrialised country. But in political and cultural terms, the repercussions are already looking much more serious, with the opening up of major rifts, not merely between the main political parties, but also between the business community and the political establishment.

Like any other western administration, the French Government is worried that the crisis will cause an economic slowdown. But its anxiety is all the more acute because, after 18 months of uneasy *cohabitation* between a Socialist President and a right-wing Government, France is fast approaching the test of a new presidential election next May.

What makes this combination of circumstances so sensitive in France is that it is not just a familiar conflict between traditional left-wing and right-wing political parties. It is in some degree a debate over France's recent conversion to an untraditional free-market economic philosophy which began under the previous Socialist Government and has been further strengthened under the Government of Mr Jacques Chirac.

For the moment, the Government is sticking categorically to its commitment to a free-market philosophy. But the business community is clearly becoming increasingly worried that the politicians may still be out of step, that their instincts are still interventionist and that the pressures of the crisis could yet drive them back towards the old ways.

Baron Ernest Antoine Seillière, chairman of the CGIP industrial holding group, says: "It is the politicians who are lagging behind the times. The crisis is not so much the product of the economy, as of politics. The French world of business has become the accuser: we are undergoing a crisis of adolescence and the politicians can make the situation worse."

Part of the reason for the industrialists' fears is the severe blow dealt by the stock market collapse to confidence in France's still immature popular capitalism. This began with the Socialists' deregulation of financial markets and floated apparently irresistibly upwards with the right-wing Government's privatisation programme.

A new generation of 6m small investors deserted their savings accounts, at first for unit trusts and then for direct shareholdings in privatised companies. Until three weeks ago this looked, despite routine words of caution from Mr Edouard Balladur, Finance Minister and architect of the privatisation programme, like a one-way ticket to easy money. The slide in share values must have jaded popular enthusiasm for the equity market and many of France's new shareholders may now be wondering whether they were right to trust the Government's philosophical prospectus.

Ironically, the French economy and business in general are in better shape today than they were five years ago. Inflation has been reduced to 3.1 per cent on a year-on-year basis and wage costs are now under much better control. All sides are agreed that in crude cost terms France has become more competitive even with West Germany, the benchmark for traditional French economic anxieties. French industry, which in the past has seized on almost any crisis as an excuse for a devaluation of the franc against the D-Mark, has joined the consensus that no currency realignment is economically justified.

Although the trade deficit remains one of the weak elements of the economy and is expected to deteriorate further with a deficit of more than FFr 30bn ($2.97bn) this year, there is general agreement that the deficit is essentially a product of booming imports, especially of capital goods, rather than of uncompetitive exports. Indeed, France has improved its overall competitive position in the OECD, overtaking the UK last year, according to a recent international survey.

The reason for this improvement is a marked change in French business attitudes and an increasingly international approach to the market place. There was a time when French companies relied on the government and on at least an element of protectionism to guarantee their prosperity: not so long ago France was still talking of "the organisation" of the European Community's internal market, which was just another way of calling for a different sort of protectionism. Those times are now past.

French business has increasingly come round to the realisation that the old recipes of *dirigisme* no longer work. "The French Government is no longer master of the situation," says Mr Bernard Pagezy, chairman of the Compagnie du Midi, the insurance and industrial holding company. "The world will be built according to Anglo-Saxon norms and France will have to adapt itself to these standards."

But the business world remains worried that the process of preparing the French economy for the rigours of international competition is still in its infant phase and that the modernisation of French industry could be seriously disrupted by the current crisis and its backlash. Their anxieties span a number of areas.

French companies have in recent years been reducing radically their very high indebtedness, partly as a result of improved profit margins, but also of greater access to equity financing. The stock market crash has put a block on new funding and companies which had counted on raising fresh equity to finance their development plans have been forced to rethink their financial strategies. A series of major capital increases have already been placed on ice.

The Government has been forced to suspend privatisation with only 40 per cent of the programme completed. The flotation of the Matra defence and electronics group, worth between FFr 700m and FFr800m, is still postponed and the much larger privatisation of Union des Assurances de Paris (UAP), the country's biggest insurance group, was last week put off until the New Year at least. Mr Balladur acknowledged that going ahead with the Matra privatisation despite its limited size would "go down badly in the current situation."

The suspension of the privatisation programme raises new problems for the companies which remain in the state sector. The Government is unlikely to be able to privatise another major clearing bank and an industrial company before the presidential elections, as it had hoped barely a month ago. This leaves the banks at a competitive disadvantage to their already privatised rival, Societe Generale, and hamstrings industrial groups like Rhone-Poulenc or Pechiney, which need access to the market to finance international expansion plans.

French companies are learning fast about the infidelity of overseas shareholders. French blue chip companies, like L'Air Liquide, Peugeot and Moet have been among the worst hit by the stock market crash, partly because they have a high proportion of "hot international shareholders" and partly because, as the most liquid stocks, they are the first to be sold by a fund manager running for cover.

The plunge in share prices has left even the largest companies vulnerable to hostile bidders. Although a number of major French companies like BSN, Moet and St Louis have set up anti-takeover defences, other targets which now look cheap in current market circumstances are already finding it much harder to put together defences. Even before the market's fall, major companies like Michelin, Peugeot, CGIP, L'Air Liquide and Compagnie du Midi, worried by proposals to abolish the registering of shares in the names of their owners, successfully fought for measures which would safeguard their ability to identify their shareholders.

The blow to confidence in the workings of the free market may bring out the old *dirigiste* instincts of civil servants and politicians. Unconvinced free marketeers like Mr Jean Saint Geours, chairman of the CIC banking group, have already called for increased regulation of the financial markets. Some bankers fear that the Banque de France might be tempted to return to its old methods of credit controls.

The economic slowdown now expected to result in the US from the crash is bound to have knock-on effects on the French economy, which is 30 per cent dependent on external demand. Mr Michel Pebereau, chairman of the recently privatised bank CCF, says, in line with other commentators, that there will be less growth, even if there is no actual recession.

Moreover, the jolt of the stock market crash has changed the ground rules for next year's presidential election, which no one had previously expected to be fought essentially in terms of economic issues. Policy debate had focused almost exclusively on social problems, such as immigration and law and order, which had become more salient as a result of higher unemployment and the emergence of the ultra-right Front National.

By contrast, the central political contest between the Socialists and the Gaullists had taken the form of mudslinging and the excavation of political scandals. On economic issues the Socialists appeared mesmerised as the appeal of a more liberal economic philosophy and the success of the Government's privatisation programme seemed increasingly to displace the old ideologies.

But the crash is bound to revive the left-right economic debate. Perhaps even more damaging for Mr Chirac, it has given the chance to Mr Raymond Barre, the former Prime Minister and his main rival on the right, to distance himself from the Government and its management of the crisis, without making very clear where he does stand.

Much the same, so far, can be said of the Socialist Party, which has quickly seized the opportunity to call for a halt to privatisation without offering coherent alternatives on how to cope with the crisis.

With the crisis still far from over, it is uncertain how this debate will develop. At the moment, Mr Barre is the main beneficiary and has moved well ahead of Mr Chirac in the polls, though still trailing behind President François Mitterrand.

Inevitably, all parties will be manoeuvring to exploit any shifts in public opinion. All may resort from time to time to the vocabulary of interventionism and state management.

That is what industry is afraid of. But the reality of the international market place and of France's place in it makes it almost inconceivable that there can be any going back.

As Baron Seillière puts it: "The crisis will create conflicts. There may be a retreat from the excesses of ultra-liberalism, but not a defeat for liberalism itself. You will not see a renaissance of the 'Commissariat au Plan' or a return to the old French values."

Men and Matters

Mason sharpens defence drive

The drive towards closer Anglo-French defence collaboration has been sharpened with the appointment of Sir Ronald Mason as a director of Thomson UK Holdings. This is the British subsidiary of Thomson, the group which now counts among its multifarious interests Thorn-EMI's Ferguson television subsidiary but which encapsulates virtually the entire French defence electronics sector.

Mason has clearly landed on his feet since earlier this year he bailed out of the chairmanship of Hunting Engineering, the missile and munitions part of Hunting Associated Industries, protesting that the parent company was starving its defence subsidiary of investment funds.

As former chief scientific adviser (1977-83) at the Ministry of Defence, Mason is well placed to guide Thomson around the British defence scene, and help it choose partners, or even acquisitions. The French company has always complained of the confusing plurality of UK defence electronics firms, in contrast to the quasi-monopoly it has in France.

There is certainly plenty of governmental push for close Anglo-French defence ties, and Thomson, it should be noted, is still state-owned. The two countries' defence ministers, George Younger and Andre Giraud, have stepped up the frequency of defence discussions that even embrace aspects of their nuclear deterrents, while their defence procurement chiefs have pledged to increase collaboration and cross-purchasing between Europe's two largest defence sectors.

So far, both London and Paris claim, there is no question of joint Anglo-French manufacture or operation of nuclear weapons. But it might be of some consequence for the future that Mason's responsibilities once included the Chevaline update of Polaris and the purchase of Trident.

Listen here

"I have no concrete plans at all but a large number of elastic ones," said Alan Coren. After 10 years as editor of Punch he just couldn't turn off the flow of little jokes when he talked yesterday about his new job as editor of The Listener.

Coren was supposed to be giving up Punch at the end of this year to concentrate on writing books but then in the past few days the call came suggesting he might like to apply for The Listener.

He says he got more and more excited about the idea of being the first editor of the magazine under its new joint BBC-ITV ownership with what he hopes will be proper financial backing.

The title will stay the same but Coren wants "to make of it an arts magazine". But as he pointed out, since broadcasting is itself an art form and broadcasting deals with all the issues generated in society the scope of The Listener would continue to be very wide.

There would not be in future so much about the politics and technology of the broadcasting industry. There were lots of other places for that.

Coren has also been promised complete editorial independence. "I can say what I like about about anyone," he says. "I can campaign for the defenestration of Michael Checkland (director general of the BBC) or Paul Fox (managing director of Yorkshire Television) or so I have been told."

But what about the four books he was planning to write? "I don't intend working at The Listener after 5pm and as there is nothing on television .... " said Coren.

Long goodbye

There are not many figures for whom the UK advertising industry would queue up to say its farewells as it is doing now for Jeremy Bullmore, long-serving chairman of J Walter Thompson and the Advertising Association.

There have been seven "leaving dos" in the past month and there are are at least another six to go before the year is out. As David Abbott, adviser during the last election to the SDP/Liberal Alliance, says: "Like the Olympic Games you wonder what you'll do after they're all over. At least the Games are over in a fortnight.... 142 nations, involving 5,458 men and 1,620 women athletes manage to complete 220 events all in 14 days. It takes the advertising industry over three months just to send one man through a door."

But despite the mickey-taking, Abbott, like other members of the industry, pays grateful tribute to Bullmore as the man who has done more than anybody to rid advertising of its huckster image and to give it some weighty respectability.

The sprightly Bullmore continues his round of leaving parties, collecting comeback offers but giving nothing away about his future.

Secret places

What is so secret about the North-South divide? The civil service moves hundreds of its more senior people around the country every year. Relocation is handled in-house.

In keeping with the tendency of the civil service to bring the private sector in to its non-core activities, however, the decision was made recently to seek outside tenders for some of its relocation needs.

Black Horse Relocation, part of Lloyds Bank, is sponsoring a conference today in London for the civil service, which includes a discussion on the issues related to moving from north to south and vice versa. Permission was granted by the civil service for one journalist, from the Financial Times, to be present.

Last week, consent was withdrawn, on the grounds that innocent civil servants would not want to be pestered by the press. Once again, the so-secret service slams the door on just a glimpse at the way it goes about its business.

Observer

Letters to the Editor

Jury trials in fraud cases

From Mr Michael Beckman

Sir, I refer to Justinian's article on "Fraud and the Burden of Proof" (September 21) dealing with the Carrian case. The purpose of the vehicle would seem to be to take on as many passengers as possible towards the conclusion that jury trials should be diminished. You might have some effect with the busy commuter who scans your article and assume the point made to be a good one without analysis.

For my part, I find it yet again another distasteful attempt to remove or diminish the jury system on an emotive basis without any real analysis of what actually occurs in a given case. Indeed, the lack of logic rather endears me to the view that the longer we keep the "commonsense" juries and away from preconceived notions, the better. This is particularly so in respect of fraud cases in Hong Kong, where the qualifying system and the right of challenge ensures the average jury is highly intelligent, capable and usually speaking two if not three languages; at least this seemed to be the case in the Carrian trial.

I have more than a nodding acquaintance of the case, and cannot see how the decision in that case can justify the publication of an article endorsing, yet again, the minority view of practitioners at the Bar that jury trials should be done away with in case of complex fraud.

Finally, I would point out that the suggestion that the "delay" point was one raised and strongly relied upon by all counsel for the defence is not accurate; had it been the case then there might have been some justification for the format of your article.

Michael Beckman,
19 Old Buildings,
Lincolns Inn, WC2

Protecting small shareholders

From Mr J. C. Willett

Sir, One of the conclusions to be drawn from your report (November 3) of the TSB extraordinary general meeting is that the case for a representative body dedicated to the protection and preservation of the interests of small shareholders grows ever stronger.

When other managements are reviewing or calling off acquisitions, what makes the TSB Group board want to press ahead with the original terms for Hill Samuel when market price levels have collapsed? If the acquisition had been on a share exchange basis its value would have been automatically adjusted by market movements.

The majority of roughly 10 to 1 in the votes recorded and the uncompromising nature of comments from the floor of the meeting suggests that there may have been a significant shift of opinion about the terms or that there might have been a conflict of interest between the private and institutional shareholders in the view taken. The institutional shareholders do not seem to have been of a mind to send personal representatives to the meeting with mandates to overturn the proxy vote or to support an adjournment. If nothing else let us hope that this episode has sounded the death knell of that earlier ill-conceived proposal by the TSB Group chairman, that shareholders should receive abbreviated annual reports as a cost-saving exercise. Any credibility attached to such an idea disappears when the premium to probable current market value now being paid for Hill Samuel would have absorbed the former "problem" for the next hundred years or so.

What shareholders do with their annual reports is entirely their own prerogative. As licensed managers of the business the directors have clear and unequivocal responsibility to inform the owners fully and equally under their reporting obligations.

J. C. Willett,
Shareholder Monitor Ltd,
PO Box 14,
Worksop, Notts

Common Market's limitations

From Mr Leslie Huckfield MEP

Sir, I am surprised that there has been so little comment on John Lloyd's tunnel vision assessment (October 26) that Frances Morrell's paper on an Alternative to Trade Wars "is far from unique among the Party's soft left leadership" and that "Labour is trying to be the new Europeans."

So narrow was his reportage that he did not even mention the John Palmer's much more cogently argued book, Europe Without America, which deserves serious consideration, for it amply illustrates the political and economic cul-de-sac in which his colleagues in the Socialist Society and Frances Morrell now find themselves. Neither did he mention the wealth of opposition to the whole framework of the Common Market running throughout constituency parties and the trade unions. John Lloyd cannot simply "magic" away the fact that most active Labour Party members are still fundamentally anti-Common Market.

What neither John Palmer nor Frances Morrell seem to understand are the limitations placed on what they both seek, not only by the existing framework of Common Market institutions, but by progress under the Single European Act, goaded onwards by increased majority voting, to its projected "completion of the internal market" by 1992.

Already, through the siren voices of the Palmer-Morrell "be nice to the Common Market" axis, the British Left has been starved of the debate over the ratification of the Single European Act which necessitated a referendum in both Denmark and Ireland. As a result, in contrast with the full-blooded campaigns waged by socialist movements in those countries, the objections to the European Communities (Amendment) Bill from the Parliamentary Labour Party in the House of Commons on April 23 1986 were puny.

As majority voting proceeds space, with "the exercise of a veto politically difficult" (House of Lords Select Committee on the European Communities 12th Report on the Single European Act, May 6 1986), John Frances will surely realise that Britain is increasingly locked into a predetermined strategy to reproduce all the worst features of American and multinational capitalism from which they keep telling us they seek their escape. For the sad irony is that most of the European initiatives which Frances Morrell seeks to praise - especially the new-technology programmes of the Commission, like EUREKA, RACE, FAST and BRITE - are being used to fund precisely those European imitators of the American multinational corporations they would seek to oppose.

I only wish that the past endeavours of the GLC and Greater London Enterprise Board, alongside the valiant and radical local authority initiatives with which Frances Morrell has been associated, and alternative economic plans of the Lucas workers, Kodak, Phillips, Fords and General Motors stewards, were together enough to counter, or even arrest these developments. But the sad truth is that as long as Britain remains within the framework of the EC, en route to its "completion of the internal market", even those left-wing elements John Lloyd describes will increasingly recognise that its motive is the slavish imitation of the imitation of the worst features of the American and Japanese economies.

In other words, more power to John's and Frances's elbow in their rejection of Atlanticism, NATO and American multinational capitalism. But unless they first get rid of, or get outside, the framework of the Common Market, they will only succeed in reproducing a European variation on these ideas.

Leslie Huckfield,
PO Box 200,
Wigan, Lancs

Faster freephone could be cheaper

From Dr S. D. Dover

Sir, Your report (November 7) that British Telecom are about to promote, amongst other things, the use of Freephone numbers is sad to hear. It is an antiquated system that requires us to call an operator (two minutes?) who then has to remember where she left her instructions on how to connect Freephone calls (another minute). In addition most PABXs are barred to direct calling of 100 so that a further minute is consumed in asking the local operator to dial 100. Why not instal the 0800 charge-free call system faster?

S. D. Dover,
17 Heath Hurst Road, NW3

Argument for Ulster's integration

From Mr J.E. Birnie

Sir, You claim (November 11) that British Government policy towards Northern Ireland, post the Anglo-Irish Agreement, cannot be characterised as one of drift. In fact many people living in this part of the United Kingdom feel that Westminster's attitude towards Northern Ireland has been one long series of expediencies since 1921.

67 years ago the majority of the residents of the North of Ireland chose to remain British but Lloyd George and all the British Prime Ministers since have refused to come to terms with this democratic wish.

Rather than have Northern Ireland administered in the same way as Wales and Scotland, they chose to impose a devolved Parliament which very few, whether Protestant or Catholic, really wanted. Presumably Lloyd George thought the ramshackle structure would very quickly collapse into the Republic of Ireland. In fact, the Stormont Parliament just about worked until the late 1960s.

Since that time British politicians have tried again and again to find a "power sharing" solution within Northern Ireland. The failure of all these efforts was as predictable as it was tragic. Now is the time for these expedients to be abandoned and the majority of Northern Irish people granted their aspiration to be fully integrated into the UK. If the Conservative and Labour parties began to take the Province seriously and to contest elections there, this would be the most powerful signal possible to terrorists that they can never win.

J.E. Birnie,
6 Parkmount Ave, Ballymena,
N. Ireland

Defining an accountant

From Mr J.E. Ould

Sir, In his article on the role of the Accounting Standards Committee (November 9) Richard Waters states that "most company directors are not accountants and do not always feel bound by the rules made by and for accountants." It is unfortunately the case that at present anyone may call themselves and act as an accountant.

The Chartered Institute of Management Accountants is only too well aware of the regulatory and enforcement difficulties this presents and has long advocated a statutory definition of accountant.

The government is currently drafting legislation necessary to implement the EC Eighth Directive on the regulation of auditors and this presents an excellent opportunity to rectify the situation. Under CIMA proposals small companies' annual accounts would carry a certificate stating that they had been properly prepared in accordance with the Companies Act. The certificate would be signed by the accountant responsible for preparing the accounts who would have to be appropriately authorised. Authorisation would depend on satisfying criteria that would then be set out in the Companies Act.

Such an approval would more accurately reflect current practice in the small business section and allow the government to relieve hundreds of thousands of small companies of the legal necessity for formal audit.

Regulation, as required by the Eighth Directive, could then be concentrated on the relatively small number of larger companies and the remarkably few firms responsible for their audit.

Effective regulation of the audit sector and rationalisation of the accounting profession as a whole can only benefit investors, companies and the community. CIMA will continue to press for amendment to legislation to meet today's needs.

J. E. Ould,
Reed International Plc,
33 Piccadilly, W1

Student grants

From Mr L. O. Bartram

Sir, I wonder if very many people are aware of the current injustice in the tax laws relating to the discrimination between parentally supported students and Local Education Authority (LEA) grant supported students. It is the LEA that determines if a person is eligible for a grant, and how much of that grant the parents will contribute.

It seems immaterial to me, and I suspect many other people, if my income is paid by my parents or my LEA. Not so the Government! It makes a distinction. This discrepancy arises from the way in which the LEA grant and a deed of covenant are regarded. A deed of covenant is regarded as taxable whereas an LEA grant is not.

What then is the justification for this distinction? It seems, by forcing some parents to be responsible for their child's finances while they are at university, that child must also expect to have a lower standard of living than if he/she were in receipt of an LEA grant. The student whose grant is made up with some degree of parental contribution is therefore penalised because of:

a) their parents home and b) the way in which the grant is paid. Why is the student paying for this? Perhaps the government earns vast revenues by taxing this particular type of student? It's the current shambles that the government is wallowing in that is the cause. One gets the impression of a runaway steam locomotive that is intent on cutting spending with scant regard for basic human rights, whilst attempting to seduce higher paying tax payers with compromises such as allowing covenants as a method of payment.

I suppose that in a democracy one ought to bow to the will of the majority, but couldn't we try and remove the wool from their eyes first?

L. O. Bartram,
125 Westbury Road,
Westbury-on-Trym,
Bristol

In economic turmoil, a Keynesian analysis may be helpful

From Professor James Meade

Sir, For a number of years the United States has been running a spendthrift economy with inadequate savings to finance its domestic capital requirements including a large budget deficit. This has necessitated a strict monetary policy with high interest rates to damp down the domestic demand for capital funds and to attract additional capital funds from abroad. The inflow of foreign funds so attracted led to an appreciation of the dollar which cheapened US imports and made US exports expensive to the foreigner, thus encouraging imports and restricting exports. Thus for a number of years the USA has been absorbing more than its income, relying on the inflow of foreign goods to make up the balance. The balance of payments deficit has become more intractable as new debt must be incurred not only to finance excess imports but to cover the interest payable on old debt. Compound interest is a formidable factor. The chickens have now come home to roost.

Before the Stock Exchange crash the United States might have accomplished a gradual restructuring, little by little raising taxes and/or reducing government expenditure with a *pari passu* relaxation of monetary policy. The gradual reduction of interest rates would have had some inflationary effect in stimulating the demand for goods and services for internal development of the country's capital equipment. But more importantly it would have mitigated and reversed the inflow of capital funds from abroad. This would have depreciated the dollar and would have increased the demand in world markets for US products relatively to the products of other industrialised countries such as Germany and Japan. The increased foreign demand would have inflated the total demand for US products. The basic reason for a concomitant rise in taxes or reduction in government expenditures would have been to offset these inflationary effects of a cheap money policy. In the outside world industrial countries like Germany and Japan would have had to face the deflationary effects of a decline in the foreign demand for their exports. To offset this they would have needed to stimulate the internal demand for their own goods and services by a gradual but substantial relaxation of their own financial policies. The whole structure of world interest rates could have been gradually reduced.

The present worldwide crash in stock exchange valuations of capital wealth introduces a sudden additional deflationary factor. Private wealth holders will be discouraged from expenditures and, more importantly, investment in new capital development by private business will be discouraged by lack of confidence and difficulties of attracting new funds. It is very uncertain how great these deflationary influences will prove to be; they may be minor; they may turn out to be substantial. This uncertainty in no way modifies the need for a depreciation of the dollar to undercut the manufactures of other industrialised countries; but it intensifies the need for inflationary reductions of interest and/or tax rates in countries such as Germany and Japan because they would have to offset any deflationary effects of loss of export markets to the USA.

In a country like the UK, so long as it has neither an excessive deficit nor an excessive surplus on the current account of its foreign payments, there will be a need for an appreciation of its currency vis-a-vis the dollar and depreciation vis-a-vis the yen and mark in order to shift its demand for imports from the latter onto the former source of supply, without any marked change in the overall trade-weighted value of the pound. This would need to be combined with a relaxation of financial policies sufficient to offset any deflationary effects from stock exchange revaluations on the demand for goods and services.

In the United States the immediate urgency for a reduction in the budget deficit is reduced, because the deflationary effect of the stock exchange slump will itself in part or whole offset the inflationary effects of the restoration of the US balance of payments. Industrialised countries including the USA should in any case design a flexible use of fiscal and monetary policies so as to attain simultaneously (i) a control over unwanted inflation or deflation of the money value of their total domestic product and (ii) a national wealth target of some kind or another which would rule out the disastrous effects of a continuing spendthrift policy. Structurally for the longer-term this would imply as great a need as ever for a reduction of the US budget deficit; and convincing plans and commitments should be made here and now for this structural change. This would help to restore confidence; but for the first time for many years the short-term situation demands a more cautious wait-and-see attitude to the actual timing of fiscal restraint.

The 1929 Wall Street crash was turned into a major economic slump by a perverse restrictive monetary reaction due to inappropriate banking institutions in the USA. Let us beware of the possibility that the 1987 crash could be turned into a major economic slump by a perverse timing of a necessary structural reform of USA fiscal arrangements.

J. Meade,
40 High Street,
Little Shelford, Cambridge

FOREIGN AFFAIRS

Still doing penance, 40 years on

Pax Americana is dying. But what, if anything, can replace it? Edward Mortimer looks for an answer

WHY SO many fortieth anniversaries? A surprising amount of political energy and diplomatic ingenuity has been devoted to marking them, these last few years. D-Day, Yalta, VE Day, Potsdam, Hiroshima, the founding of the UN: all were carefully, often agonisingly, commemorated in 1984-5. This year it has been the Marshall Plan. Next year, I feel sure, we shall hear a lot about the coup in Prague, the Brussels Treaty (origin of the Western European Union) and the Berlin airlift. In 1989 it will be the turn of Nato and the two German states.

Of course these were all great events, and they did happen 40 years ago. But 40 is not such an obvious number to celebrate. It is no neat fraction of a century. Having got so far, why not wait another ten years for the golden jubilee?

One obvious reason is that many of the protagonists or survivors are still around, whereas in the nature of things fewer of them will be in ten years' time. But I'm not sure that that's a sufficient explanation. There is, after all, a certain selectivity about the song and dance made on these occasions. One might think the partition and independence of India was a pretty important event in British and, indeed, in world history. But that fortieth anniversary fell this year, too, and passed almost unnoticed outside the subcontinent.

The events that have been most assiduously commemorated are those which have to do with the founding of the postwar geopolitical order: the transition from hot war to cold war, from holocaust to balance of nuclear terror, from Europe as battleground of its own demonic forces to Europe as frontier between two continental superpowers. And I suspect that one reason for this is a widespread feeling that not only the individual survivors but the postwar order itself may not be around much longer.

The thought is prompted by a conference I attended last week on "the Marshall Plan 40 years after: lessons for the international system today". It was held in Bologna, but instigated and largely sponsored by the United States Information Agency. The idea was, apparently, to assemble a group of "young leaders" from the countries which had participated in the Marshall Plan and the institutions - OECD, EEC, Nato - which could be said directly or indirectly to have grown out of it; to treat them to a series of exposes by veterans of the Marshall Plan itself, American and European; and to encourage them to reflect, in a series of "workshops", on how the achievements of the Marshall Plan could be preserved, built on and extended in the future.

One striking thing about the outcome was the almost complete absence of politicians and businessmen among the "young leaders": the organisers had had to fall back for the most part on academics, journalists, and relatively junior officials. Another was the pessimism of the veterans about the future of the American-led political and economic order which, 40 years ago, they had helped to create.

The one seemed, symbolically at least, to bear out the other. While people like Giovanni Spadolini, the former Italian Prime Minister, and Denis Healey - who as international secretary of the Labour party wrote pamphlets to persuade other European Socialist parties to support the Marshall Plan - are still happy enough to share the limelight with their old American friends and colleagues, the young decision-makers of today's western Europe evidently have other, more pressing commitments.

Two things held the postwar order together: fear of the Soviet Union and the hegemonic power of the United States.

The latter, as this column argued three weeks ago, is inexorably declining - a view apparently shared by both Americans and Europeans at the Bologna conference and implicitly also by those Europeans who stayed away.

The Bologna-based British historian David Ellwood, who organised the conference, did point out that American cultural power remained undiminished, illustrated by the popularity in Europe of Dallas and Dynasty at one end of the market and of Johns Hopkins University's Bologna Center (where we were meeting) at the other. American military power too was still unique, and the true purpose of "star wars" might indeed be to reassert American military pre-eminence over allies as well as adversaries. It was only in the economic sphere, Ellwood suggested, that US hegemony was in real trouble.

Perhaps so. But cultural power often outlives politico-military power, as examples ranging from ancient Greece to modern Britain can testify; whereas economic power runs ahead of it. Already America's economic crisis has spawned a Congress determined to bring "star wars" down to earth and a new Defence Secretary who accepts the need for cuts in military spending. It is true that so far he rules out a cut in US troops in Europe, but that may be only a matter of time.

At least one speaker in Bologna recalled that the original purpose of the Marshall Plan itself was, in fact, "to let the Americans go home", by enabling Europe to stand on its own feet. Clearly the communist threat did have something to do with it (though Marshall's original offer of help was addressed to the whole of Europe: the decision to exclude the communist bloc was Stalin's). But in 1947 that threat was seen as political rather than military. It was only after the events of 1948 - the coup in Prague and the Berlin blockade - that leaders on both sides of the Atlantic became convinced of the need for a permanent defensive alliance, and only after the Korean War broke out in 1950 that that alliance was endowed with a military structure designed to resist a Soviet invasion of western Europe.

Today communism as a political threat to western Europe has long since faded. Thanks - in part, at least - to the Marshall Plan, the west European democracies are far stronger than they were in 1947; and communism no longer has the aura of a conquering and liberating force that the Red Army's victories had given it.

The idea of a Soviet invasion of western Europe also seems *far-fetched*. Maybe that is precisely because Nato has provided, and still provides, an effective deterrent. But the fact remains that fewer and fewer west Europeans really feel in their gut the need for American protection; and that, too, is a reason why American hegemony is less and less readily accepted.

But what can replace it? If the eighteenth century was French, the nineteenth British and the twentieth American, will the twenty-first be Japanese? It is possible. But neither Britain nor France ever enjoyed the absolute preponderance of world power which America had in the years after 1945 and it is unlikely that Japan will. The historical norm is more of a rough and shifting balance between several competing powers.

In any case, the transition to a new hegemony would take some decades. For the time being, at least, we are going to inhabit a multipolar world. But how shall we manage it, given that the existence of nuclear weapons rules out the traditional process for registering shifts in the geopolitical balance, namely war?

The truth is, we have no notion. We have the Wilsonian ideal of a world order not based on hegemony or fear but on the rational management of the common interest by states acting in concert and respecting each other's sovereignty - the ideal embodied in the UN Charter. But we have no experience of such a system in practice and we do not know how to set about making it work.

An additional handicap is that Japan and West Germany, the two countries everyone is calling on to take over some of the burdens of leadership, are the two whose pretensions to geopolitical dominance the last world war was fought to squelch. Both have spent the last 40 years doing penance for such pretensions, and learning to regard the cultivation of their own gardens as the only respectable national achievement. It's a lesson they find difficult to unlearn and most of us have mixed feelings about asking them to do so.

FINANCIAL TIMES

Tuesday November 17 1987

Judy Dempsey reports on Romania's efforts to end its dependency on Western banks

The price of paying back debts

IF ROMANIA continues with its policy of rapidly repaying its hard currency debts, it will be in the bizarre situation, by the early 1990s, of having to return to the banks for cash to modernise its ailing industrial base.

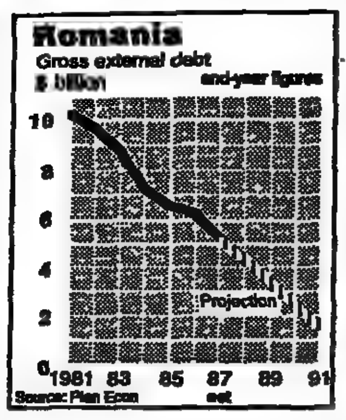
Western bankers based in Bucharest think the country's obsession with repaying the debts by the end of the decade has led to a serious neglect of investment in machinery and delayed the introduction of much-needed new technology.

A banker who has worked in Bucharest for several years commented, "you can just see a time when Romania will have to return to the banks for loans.

"What is the alternative? If they want to have goods that will sell on Western markets, they will have to import new technology for which they will require loans. It is as simple as that."

For the Romanian authorities, the options are far from simple. For the past seven years, Mr Nicolae Ceausescu, the Romanian President and Communist Party leader, has embarked on what appears to be both a personal and national crusade to rid the country of all foreign debts.

Enterprise managers are exhorted to produce more goods for export. Import licences which require hard currency are at a premium. Ministers are regularly reshuffled or dismissed because they fail to reach export targets. The bulk of the country's energy resources are now earmarked for industry. Breaking the dependence on the Western banks is today the number one priority in Romania's economic policy and no Romanian official is prepared to question that.



However, when they are asked what economic strategy they will adopt and how they will allocate their foreign exchange reserves once the debts have been paid off, they clam up. Either they really do not yet know, or they are reluctant to reveal their plans.

Even Western bankers have little inkling about future strategy. "We are kept in the dark as much as you. We have no access to officials who will give us concrete information. As a result, we ourselves don't know what strategy to adopt for the future. We wait."

Waiting for signs of a strategy to emerge has been coloured by the way in which Romania has dealt with its foreign debt.

At the end of 1981, for instance, Romania owed more than $10.5bn to the banks. But the Polish crisis of 1980-81, Romania's request for rescheduling and the reluctance by Western banks to extend further credit lines to Eastern Europe, have had an enormous impact on Romania's foreign economic policy.

Romania tackled its debts with extraordinary singlemindedness. By the end of 1986, the external debt had been reduced to $5.5bn. This year alone, the country has already paid off $1.5bn and by 1991 the debt will be only $1.5bn.

The price, in terms of the domestic economy, and in particular the demands made on the country's industrial base, is now being paid.

The shops continue to be miserably stocked. Milk products, butter, cheese, yoghurt, eggs and coffee are almost impossible to buy. Meat is exported. This year, Romanians say they will have no potatoes because of the summer drought.

The lei, the Romanian unit of currency has little real value. The black market is thriving. The dollar is worth five times the official rate of exchange. In this economy of shortages, barter is the new unit of currency.

But what really concerns economists - Romanian and Western alike - extends beyond the consumer.

They now ask how long the infrastructure can stand up to such a rigid export-oriented economic policy in which exports during 1981-86 have risen by an average annual rate of 8 per cent. Imports, in sharp contrast, have increased by 1.3 per cent over the same period and little change is expected before 1990.

During the same period, hard currency imports have declined at an average annual rate of more than 11 per cent. Capital investments are rising by an annual average of 1.2 per cent.

This is regarded by Western economists as a key indicator. With the cut in imports and capital investments, Romanian industry is not being modernised. Its inefficient heavy industry consumes the bulk of the country's energy resources at the expense of radically reducing domestic supplies.

The energy problem has become so serious that the Romanian authorities have requested an extra delivery of 4m tons of oil from the Soviet Union above normal annual Soviet deliveries of between 4 and 5m tons. For payment, the Soviet Union is requesting more and better quality goods. Extra oil deliveries, however, are no cure for the ailing infrastructure.

"You can starve a country of capital investments for two or three years," a Western banker based in Bucharest commented. "But over a longer period of time, it becomes very difficult." He added that the industrial base would continue to deteriorate.

There is always the option of increased trade with the Soviet Union, already a noticeable trend. Between 1981 and 1986, total Soviet-Romanian trade amounted to 17bn roubles ($10.26bn). Between 1986 and 1990 trade will rise to between 35bn and 38bn roubles and Romanian officials recognise that this could adversely affect trade with the West.

For the moment, however, no Romanian official speaks about the future. The economic policy does not lend itself to flexibility. Unless, as economists argue, the level of imports, especially high technology, increases, Romania will have to live with an increasingly obsolescent industrial base and an impoverished population.

Thatcher calls for growth in Japan, Germany

By Peter Riddell, Political Editor, in London

WEST GERMANY and Japan should expand their domestic economies in line with any cut in the US budget deficit if the risk of recession is to be avoided, Mrs Margaret Thatcher, the UK Prime Minister, urged last night.

In her annual speech to the Lord Mayor's banquet in the City of London, Mrs Thatcher placed as much emphasis on action by trade surplus countries as on that by the US. This represents a shift of presentation from recent comments by her and Mr Nigel Lawson, the Chancellor of the Exchequer, which have referred primarily to the budget deficit.

The Prime Minister said, "Every major country must be prepared to take the necessary action to secure a sounder balance in the world economy."

Without mentioning possible further cuts in interest rates, she said that Britain stood ready to do its part, together with the other major industrialised countries, "to help restore stability to financial markets and to maintain the conditions for continued growth."

Highlighting the "special responsibility" of countries with a large trade surplus, Mrs Thatcher said West Germany and Japan had "scope to expand their domestic economies without the risk of higher inflation."

Moreover, she added, "Japan and some newly industrialised countries like South Korea and Taiwan, both of which have considerable surpluses, could and should take further action to open their markets."

In relation to the US, Mrs Thatcher said the overriding need was that the cuts in the budget deficit being negotiated between President Reagan and Congress "should be sufficient to restore confidence, clearly and decisively."

Noting contradictory advice being offered by US economists, she pointed to the British experience in 1981 when a cut in borrowing was "the starting point for more than six years of economic growth."

In response to concern among Conservative Party backbenchers that UK financial policy might become too lax, Mrs Thatcher said: In the short-term it was right to provide liquidity for the markets, but in the longer-term you cannot buy sustained growth with higher inflation."

She listed a number of economic principles she considered fundamental, including sound money and low inflation, prudent finance and living within your means, removing the obstacles to enterprise, and fairly applying the principle of free trade.

Without referring directly to Japan, she said, "No country should seek to run its economy and society in such a way as to entrench a massive and permanent trade balance in its favour."

Meanwhile, before the EC heads of government summit in Copenhagen early next month, Mrs Thatcher also stressed the need for action to remove distortions in world trade in agriculture. "It cannot be a no-go area for common sense, where the laws of supply and demand cease to apply," she said." Mrs Thatcher emphasised a general responsibility to reduce subsidies "at a rate which allows farmers to adjust and plan for the future."

More generally, Mrs Thatcher said the market turmoil had blunted neither the Government's determination nor enthusiasm to carry out its "massive" programme of reform.

THE LEX COLUMN

Crossed wires in Washington

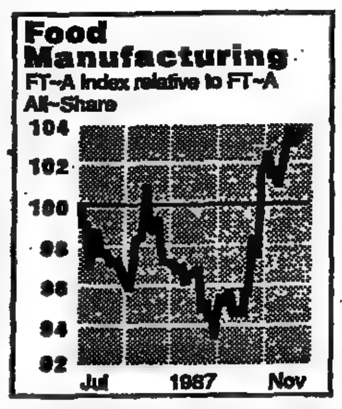
The sharp rise and fall in the UK equity market and the dollar yesterday seems to have been based on a few comments by President Reagan. Over the weekend he suggested that budget cuts of $30bn and $50bn this year and next were likely, which boosted sentiment. But it was deflated again by his remarks yesterday that expectations were for a cut of at least $23bn - required in any case by the Gramm-Rudman legislation by Friday - and that he thought tax increases would be the wrong thing. The FT-SE 100 index closed only 6 points up having been 50 points higher at its best, and the dollar lost some of its earlier gains.

This does not mean that markets have a very high regard for Mr Reagan. But he did manage, perhaps unintentionally, to encapsulate the hopes and fears of this week's budget deficit discussions. The best outcome would be agreement soon of cuts this year of decently more than the forced $23bn, including some tax increases and not too much creative accounting. A bigger figure for cuts next year, with a credible chance of them actually happening, would be even better. If that happens the G7 nations could probably meet and agree to take action to cut interest rates, reduce trade surpluses and stimulate other economies and all would be well for the time being.

The corresponding fear is that a deal will be cobbled together just before the deadline, with too great a proportion of the cuts coming from one-offs like asset sales and no tax increases. There would then be excuses for G7 to refuse to meet on the grounds that the US has not done enough - UK politicians, for example, have said that US tax increases are necessary. Then the dollar and equities would be vulnerable again. This could be an uncomfortable week - and it might be better if politicians on all sides spent it with sticking plaster over their mouths.

NY Stock Exchange

It is hard to tell from yesterday's comments from Mr John Phelan, chairman of the New York Stock Exchange, whether he blames the NYSE's volatility on too much or too little market efficiency. Could it be a bit of both? Part of him seems to side with those incorrigible bulls who are already arguing that the



extremities of Black Monday, even compared with earlier crashes, are merely a tribute to the market's new ability to absorb a panic without seizing up. And Mr Phelan's widely held anxiety about the capitalisation of the stock exchange specialists - in the light of the problems that did emerge - would, if properly attacked, make the market theoretically susceptible to even sharper slides. UK brokers are already boasting that Japanese investors are promising to return first to the UK because of the easier exit they enjoyed.

But the suspicion that programme trading, portfolio insurance and the rest were to blame is hard to shake off. Then again if the share market's jumpiness was responsible for the breakdown of the futures market, then the insurers were victims not culprits. Perhaps the market worked well enough to allow the collapse but not quite well enough to keep the countervailing instruments in business.

Food manufacturers

Food companies like Unilever and Unigate, both of which reported figures yesterday, are classic defensive stocks. Besides the reassuring fact that people have to eat, food companies tend to enjoy the strong cash flow associated with low-growth markets. And since their products mostly do not keep, they cannot be stockpiled; so the companies do not suffer the convulsions which hit engineering or chemical companies in recessions, when their customers simply stop buying and work off their stocks instead.

In Unigate's case, the image runs a little ahead of reality. Leaving aside the slightly mysterious 14 per cent drop in first half profits reported yesterday, a third of the group's business comes in distribution, exhibitions and US restaurants, none of which are wholly recession-proof. Unilever, by contrast, is the real thing; a vast, bureaucratic, efficiently-run empire, purveying soap and margarine to the world - and, as yesterday's third-quarter figures showed, still capable of real organic growth.

But Unilever is still subject to cycles, though the scale may be tiny compared with such as ICI. The real engine of growth is still its European heartland, where margins have steadily improved over the past couple of years. In a serious economic downturn, margins would be squeezed. The group would argue that it has recently sold off its cyclical commodity businesses, so it would be different this time; but ICI, after all, could say the same.

But there is no denying Unilever's robustness. At 470p, its shares are on a market multiple for the current year, and in 1988 the outlook is for above-average earnings growth for below-average risk. Since the yield is a full point below the market, this has been largely allowed for; but for fund managers of a nervous disposition, this must still be a soothing stock to hold.

Investment trusts

Investment trusts remain the Cinderellas of the investment industry. In the heady days of the bull market earlier this year their steady performance went unnoticed among the loud boasts of the unit trust managers. Since the collapse four weeks ago they have underperfomed the overall market, and the average discount to net asset value has nearly doubled to around 23 per cent. In a bear market closed-end investment trusts are in a stronger tactical position than open-ended unit trusts, which are sometimes forced to sell shares at distress prices to meet unit-holder redemptions. Investment trusts have no such pressures. Part of the reason for the sector's underperformance is that some trusts were relatively highly geared on the eve of the crash, and the heavy US dollar exposure of many trusts has also worked against them. However, shareholders in investment trusts were always able to deal during the worst days of the recent share collapse - a point which would be worth highlighting in the industry's battle to overcome the advertising hype of the unit trust industry.

Eurotunnel sell-off at record cost

By Richard Tomkins in London

EUROTUNNEL, the Anglo-French group building the Channel tunnel, yesterday launched one of the most expensive stock market flotations ever staged by a private company.

The prospectus for the issue shows that of the £770m ($1,35bn) being raised through share offerings in London, Paris and other international markets, an estimated £68m - just under 10 per cent of the total proceeds - will be absorbed in costs.

This is substantially higher than the expenses incurred in many other privatisation issues. The £900m British Airways flotation in February, for example, cost the Government £29m and BA £8m - and was criticised as unnecessarily expensive.

Trustee Savings Bank (TSB) paid some £90m for its flotation in September 1986. This was less than 7 per cent of its £1.4bn proceeds and the figure was greatly inflated by the long legal procedures necessary to decide who owned the bank.

Of the £68m being paid out by Eurotunnel, some £41.5m will be paid to the company's financial advisers and intermediaries - the merchant banks, brokers, underwriters and receiving banks. Advertising, printing costs and legal fees account for most of the rest.

One reason for the high cost is the simultaneous offers on both sides of the Channel, which duplicated many expenses. Another is the unusual nature of the offer, which made extensive advertising necessary and prevented the sponsors from repeating the Government's successes in trimming underwriting fees.

Altogether, some 220 Eurotunnel units - each comprising one British share and one French share - are being sold. Of these, 101m will be sold at 350p each in the UK, 101m at FFr35 ($20) each in France, and 18m at 175p plus FFr17.50 in other countries. Eurotunnel's market capitalisation will be £1.16bn.

Of the units being sold in the UK, just under 42 per cent have been firmly placed with institutional investors and the rest will be available to the public. The offer closes on November 27.

In France, where shares are mainly sold through the banks, the offer opened yesterday and shares will be sold on a first-come, first-served basis. The offer will close on November 27 or when all the shares are subscribed, whichever is sooner.

Japan may lift barrier between banks and security businesses

BY IAN RODGER IN TOKYO

ABOLITION of barriers between banking and securities business in Japan and between different types of banks has been proposed by a sub-committee of a Ministry of Finance advisory body.

A radical liberalisation of Japan's tightly segregated financial system has been discussed for a long time, but this is the first time it has been advocated by a body associated with the MoF.

The proposals, which should be seen as part of a typically Japanese process of building a consensus for reform, will be put to the MoF's Financial System Research Council (FSRC) early next month. The council will almost certainly endorse them and recommend that the MoF implement them.

According to Japanese newspapers, the sub-committee report says banks and securities companies should be allowed to enter each other's territories through subsidiaries. Also, short-term banks should be allowed to issue debentures, a privilege restricted to the long-term credit banks.

Finally, any financial institution should be allowed to enter the trust banking business, which is restricted to a few Japanese and foreign specialised trust banks.

An MoF official yesterday confirmed the substance of the newspaper accounts, although he said the sub-committee did not put a concluding opinion on the draft report.

It is difficult to guess how long it will take for reforms to be implemented. There are powerful vested interests in the different sectors and those benefitting most from the present system will try hard to slow the process of reform.

Last summer when the MoF published its latest timetable for liberalisation of financial markets and institutions, it was cautious on the subject of the segregation of business areas. It said the FSRC would report by the year-end on the problems created by segregating different types of banks.

As for the distinction between banks and securities companies, the MoF would "review appropriately, as necessary, how this distinction should be in specific areas, respecting each industry's inherent fields of business and considering changes in domestic and international situations."

However, the barriers between sectors are crumbling because of the internationalisation of capital markets and the ingenuity of many bankers and brokers in finding ways around them. Thus, the MoF is under increasing pressure to do something for those being hurt by the present system.

The existence of this report, and the fact that it appears to go beyond its remit to deal only with banks, may indicate that Japan will not wait until a similar reform in the US financial system. Some opponents of change in Japan have argued that Japanese reform should follow changes to the US Glass-Steagall Act, which separates banking from securities business in that country.

The liberalisation process in Japan will not affect directly most of the major foreign financial institutions operating in the country. They already have access to both banking and securities businesses. However, it would be likely to intensify competition in the most profitable sectors, particularly in the securities area.

Sarney faces dilemma after vote for parliamentary system

BY IVO DAWNAY IN RIO DE JANEIRO

PRESIDENT Jose Sarney of Brazil yesterday appeared undecided whether to fight on for a five-year term of office and a presidential system of government.

His quandary comes after the committee drafting a new constitution voted by a narrow margin on Sunday to reduce the president's term to four years, giving elections next November, and to impose a parliamentary system from next March 15.

If a parliamentary system is introduced, the President would be obliged to propose a prime ministerial candidate and to take a more limited role as head of state.

The surprise outcome, overturning Mr Sarney's repeated public demands for a five-year term under a strongly presidential regime, came as a body blow. Technically, both decisions can be reversed in the coming few weeks by a plenary session of Congress, called to ratify the text of the draft constitution.

But most analysts believe that the political tide is too strong for the president to rally the 280 congressional votes needed to command an amending majority in the plenary.

Politicians of all parties were acting yesterday as if presidential elections in November 1988 were a foregone conclusion.

In a defensive yet ambiguous statement released from his residence, Mr Sarney pledged his backing for any conclusion that the plenary may reach - including the possibility of elections in 1988.

"The president of the Republic has no personal ambition to defend, beyond the national interest," the statement added.

Mr Sarney's options are limited. He could accept a parliamentary system, which would sharply reduce his powers, and attempt to win support for a five-year term as a more symbolic head of state.

There remains substantial opposition to a parliamentary system within the Congress, however. If those in favour of a prime ministerial government are voted down, cross-party backing for direct presidential elections in November would be likely to rise further

A new factor that could influence Brazil's precarious political balance also emerged yesterday when Mr Ulysses Guimaraes, president of the majority Democratic Movement Party (PMDB), was rushed to hospital for heart checks.

Mr Guimaraes, a pivotal force in Brasilia's shifting alliances, is widely seen as a likely choice for Prime Minister

World Weather

		°C	°F			°C	°F
Ajaccio	F	18	64	Dubrovnik	[illegible]	[illegible]	[illegible]
Algiers	F	17	63	Edinburgh	[illegible]	[illegible]	[illegible]
Amsterdam	C	12	54	Faro	[illegible]	[illegible]	[illegible]
Athens	F	21	70	Florence	[illegible]	[illegible]	[illegible]
Bahrain	S	26	79	Frankfurt	[illegible]	[illegible]	[illegible]
Bangkok	S	33	91	Funchal	[illegible]	[illegible]	[illegible]
Barcelona	S	17	63	Geneva	[illegible]	[illegible]	[illegible]
Beirut	-	-	-	Gibraltar	[illegible]	[illegible]	[illegible]

Reagan cautious over deficit package

Continued from Page 1

finance ministers involved in the Group of Seven (G7) industrialised nations - Britain, France, Italy and West Germany - on plans for a G7 meeting. Mr Lawson said this would only be called following "adequate measures to reduce the (US) budget deficit."

Mr Stoltenberg said the EC ministers' joint pledge to improve conditions for further internally generated non-inflationary growth "did not necessarily imply any new measures from Bonn."

He was backed by Mr Onno Ruding, the Dutch Finance Minister, who forecast a further round of European interest rate cuts - in particular from West Germany, Switzerland and the Netherlands - but no direct macro-economic stimulation.

However Mr Stoltenberg clearly came under renewed pressure from his EC partners yesterday to take further action, for example by bringing forward the promised West German tax reform package.

"There was some concern about the rate of economic growth in Germany," Mr Lawson said after the meeting. He said it was necessary to "re-establish" the Louvre Agreement on the stabilisation of exchange rates and for West Germany and Japan to ensure continuing world economic growth through satisfactory growth in their own countries.

With Congress challenging the President on issues ranging from trade policy to arms control and domestic spending priorities, Mr Reagan said that America faces a turning point in its history. "Americans have it within (their) power to lead the entire world into a new age of prosperity and peace," he said.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Tuesday November 17 1987

Harcourt Brace pulls in $334m from asset sales

BY ANATOLE KALETSKY IN NEW YORK

HARCOURT BRACE Jovanovich, the heavily indebted US publishing company which recently fought off a takeover bid from Mr Robert Maxwell, the UK publisher, has sold its magazine and school supplies businesses for $334m.

The two companies, HBJ Publications and Beckley-Cardy, are being bought by an investment group led by Mr Robert Edgell, who is currently HBJ's vice chairman, and by Kidder Peabody, the securities house owned by General Electric.

In terms of numbers of titles, HBJ Publications is the biggest publisher of professional and business periodicals in the US. Beckley-Cardy is the country's biggest distributor of textbooks and other school supplies.

Mr Edgell was the executive put in charge of HBJ's asset disposal programme in August, shortly after the company took on $2.5bn of debts in what has been described as a "scorched earth" defence against the bid from Mr Maxwell. HBJ's new debt was largely used to make a cash distribution to shareholders in competition with Mr Maxwell's offer.

The price fetched by HBJ Publications and Beckley-Cardy was somewhat disappointing in view of several statements made by Mr Edgell that the two businesses were worth between $350m and $400m.

Mr Edgell said yesterday that the discount to his earlier estimates was entirely attributable to last month's stock market crash and its aftermath. "I had repeatedly said these businesses were worth at least $350m, with $400m as an upper estimate; but the price of every business in America went down last month," he said. Mr Edgell went on to describe the price reduction as "very modest," given the events of October.

Despite the somewhat lower than expected price, Mr William Jovanovich, HBJ's chairman, pronounced himself pleased with the sale and said that no further asset disposals would be required to service his company's debts. HBJ was now "a year early" in fulfilling the pledges on asset realisations it had made to debtholders and "I do not foresee a need to sell other HBJ businesses, departments or divisions," he said.

The purchase is being financed by means of a bridging loan from Kidder Peabody, which will also be a substantial equity holder in the new business, to be renamed Edgell Communications Inc. Other equity partners will include members of the HBJ Publications and Beckley-Crady management and two privately held companies with extensive interests in the communications business - Wicks Communications of New York and Labovitz Corporation of Duluth.

Pan Am takeover attempts intensify

By Roderick Oram in New York

ATTEMPTS TO take over Pan American World Airways intensified on several fronts yesterday, as its unions tried to attract another bidder and a small New York financial services company prepared to launch an offer.

An official from a coalition of Pan Am's unions met a representative of Mr Jay Pritzker, the Chicago investor whose family owns 69 per cent of Braniff Airlines, the Hyatt hotel chain and other businesses, who has been in contact with Pan Am's management since last summer.

The Pritzker family took over Braniff in 1984, when it was under protection of the bankruptcy courts. The airline has continued to struggle, increasing speculation that the family might try to sell or merge it with another airline.

Union negotiators said the Pritzkers might be prepared to bid if the unions agreed to labour cost savings, worth about $200m a year.

Meanwhile, Tower Financial, which is mainly a New York debt collection agency, said it was about to unveil an offer.

Last Friday, Pan Am rejected an offer from Mr Kirk Kerkorian, a Los Angeles investor whose interests include MGM Grand Airline. He offered to invest $75m, raise another $400m and assume $1bn of debt in exchange for less than 50 per cent of Pan Am's equity.

Pan Am said it rejected the offer because it was too conditional, with no assurances that Mr Kerkorian would achieve labour concessions or be able to raise money to inject into the airline.

The carrier, which has enjoyed a sharp turnround from heavy losses to a third quarter $63m net profit, hopes to win union approval by the end of the year for $180m in cost savings.

Move could prompt consolidation among UK chip manufacturers

Plessey considers buying Inmos

BY TERRY DODSWORTH IN LONDON

PLESSEY, the UK electronics and defence group, is seriously considering an ambitious plan to acquire Inmos, the loss-making semiconductor group, in a move which could trigger a wave of consolidation in the UK chip manufacturing industry.

The Plessey interest, still at an early stage of discussion, coincides with a wide ranging debate in Whitehall on the future of semiconductor production in the UK.

A confidential report on the industry's prospects was recently completed for the Department of Trade and Industry (DTI) by Mr Ian Mackintosh, the electronics consultant, who is known to have strong views on the need for consolidation of chip production in Britain.

Any takeover would be likely to involve the DTI because of government support programmes for the semiconductor industry.

Inmos, launched in the late 1970s with the backing of government funds, was put up for sale by Thorn EMI, its current owner, earlier this year.

A detailed prospectus on the company has recently been circulated to a handful of interested groups by Goldman Sachs, the merchant bank, which has told clients that Thorn is willing to consider a full or partial sale.

Plessey is believed to have shown the most interest in an agreement, with significant support coming from Sir John Clark, chairman of the group and a strong advocate of its steady expansion in semiconductor production over the last few years.

Industry executives say a takeover offer depends very much on the terms which Thorn is prepared to accept and a more detailed analysis of how the Inmos product range would fit with Plessey's own specialised semiconductors.

Although Inmos is losing money after a period of break-even earlier this year, a deal might be attractive to Plessey as a way to achieve rapid growth.

Plessey is keen to expand its semiconductor business from its present annual turnover of just over $100m to $300m by the early 1990s, and Inmos, with sales expected to reach about $100m this year, would take it a long way towards this target.

An agreement between the two companies would also be a significant step in restructuring the industry along the lines advocated by some specialists.

Britain's weakness in semiconductor production was the subject of a recent paper by the electronics committee of the National Economic Development Office, which argued that the government and industry ought to work together to retain a UK base in this sector.

Many industrialists believe this co-ordination could be achieved effectively only if a more sizeable enterprise were created in Britain, with the muscle to impose itself on world markets.

While this is not a view that is shared in the City of London - where analysts are sceptical about the potential for profits in such a highly competitive sector, it is one which is likely to have won the backing of Mr Mackintosh.

In the past Mr Mackintosh has emphasised the need for scale in semiconductor production, and the importance of the industry to the health of the rest of British manufacturing. The UK is currently running a big balance of trade deficit in microchips.

Government action on Mr Mackintosh's report, however, is likely to depend on the lengthy review of science and technology policy going on in Whitehall.

Separately, ministers in the Department of Trade and Industry have recently been sent a report advocating continuing government support for the semiconductor industry now that the official Alvey programme for research into advanced information technology is drawing to a close.

Bass moves on Bell & Howell

BY OUR NEW YORK STAFF

TAKEOVER speculation intensified yesterday around Bell & Howell, the Chicago-based business equipment and information services company, with the announcement that Mr Robert Bass of Fort Worth intends to boost his group's stake in the company to 25 per cent or more.

Mr Bass, a wealthy investor who has been rapidly diversifying his family fortune out of the oil business and into communications, put Bell & Howell "in play"" in June, when he announced that he had bought 9 per cent of the company's stock. Since then, two other potential bidders - Macmillan, the large US book publisher, and Maxwell Communications of Britain - have entered the fray, boosting the share price by 50 per cent, to yesterday's lunchtime level of $60⅞. This price values the whole company at around $550m.

Mr Bass said yesterday that he had already increased his stake to 16.2 per cent and was filing with anti-trust authorities for permission to raise it further to 25 per cent. He added that his group might make further applications to buy 50 per cent or more of Bell & Howell within the next year.

The Bass filing follows a statement last week from Mr Robert Maxwell that his company had bought 2.3 per cent of Bell & Howell and had applied for clearance to raise its stake to 50 per cent or more.

Royal Bank talks with broker

BY ROBERT GIBBENS IN MONTREAL

THE ROYAL Bank of Canada is again negotiating with Dominion Securities Inc, the country's largest investment dealer, with a view to taking effective control.

Toronto investment observers say talks have reached an advanced stage and a tentative offer of around C$27 a share by the Royal has been mentioned.

Dominion Securities stock was up more than four points to C$20 last week, still down from a high of just over C$28 before the October 19 market crash.

The Royal, the biggest of Canada's chartered banks and the only one among the big five yet to tie a knot with a major investment dealer, is expected to buy all the Dominion Securities shares held by the public and about half held by the management team. This would give Royal about 60 per cent of Dominion Securities at a cost of nearly C$600m (US$454.5m).

The future of Orion Royal Bank Limited in London would be linked to the outcome of Royal's talks with Dominion Securities.

A week ago Mr Allan Taylor, Royal Bank's chairman, said the bank planned to buy an investment dealer at the right time and at the right price and that it was talking with several firms.

Yesterday the bank refused to comment further on reports that the focus was now on Dominion Securities.

Allied Irish may postpone US bank deal

By David Lascelles, Banking Editor, in London

ALLIED IRISH Banks, the leading Irish banking group, may postpone a planned increase in its 49.5 per cent investment in First Maryland Bancorp because of changes taking place in the US banking market.

Mr Niall Crowley, AIB chairman, said yesterday that under the original 1983 investment agreement, Allied Irish would be able to raise its stake to 51 per cent at the end of this year, eventually rising to 60 per cent. A decision would be taken next month.

However, a majority holding in First Maryland could complicate the Baltimore-based bank's plans to form regional alliances with other US banks. Under accounting rules, majority-owned banks have fewer options on accounting for acquisitions.

K mart earnings rise 23% in quarter

BY OUR FINANCIAL STAFF

K MART, the world's second-largest retailer, increased third-quarter net income 23.5 per cent to $110.1m, compared with the same period of 1986.

Third-quarter sales rose 7 per cent, to $5.97m, from $5.58bn in the same quarter last year, and sales in comparable stores, open a full year, were up 3.6 per cent. Earnings per share were 54 cents, compared with 44 cents, after adjustments for the three-to-two stock split on June 5 this year.

Income in the first nine months reached $371m on record sales of $17.87bn and an increase of 23.8 per cent from the comparable 1986 figure of $299.7m.

Earnings per share in the nine months were $1.82, compared with $1.50 in the same period last year.

ICH agrees to acquire Southmark

BY OUR FINANCIAL STAFF

ICH, an insurance company based in Louisville, Kentucky, has agreed to acquire Southmark, in a stock swap valued at about $315m.

The terms call for the Dallas-based financial services concern, which had revenues of $872m for the fiscal year ended June 30, to be merged into a unit of ICH.

If approved by both companies' boards, shareholders and certain regulatory agencies, among others, Southmark holders would receive two ICH common shares for each three shares of Southmark common.

In New York Stock Exchange composite trading on Friday, Southmark's shares closed at $6.875, up 75 cents. In American Stock Exchange composite trading, ICH's stock closed at $7.75, up 12.5 cents.

The proposed transaction, announced yesterday, would allow ICH to distribute Southmark's financial service products.

Company Notices

INTERNATIONAL COMPANIES & FINANCE

Better results and higher payout at Barlow Rand

BY JIM JONES IN JOHANNESBURG

BARLOW RAND, the South African mining and industrial group, increased pre-tax earnings by more than a quarter in the year to September and is planning for further growth in the current financial year.

Consolidated turnover, which excludes the group's managed gold mines, rose to R16.6bn ($8.3bn) from R14.6bn and pre-tax profits were R1.36bn against R1.08bn.

Mr Warren Clewlow, the chief executive, said yesterday that trading results should improve again this year despite cautious estimates of the country's likely economic growth. He believes that official measures tend to understate real economic activity as they do not measure the grey economy.

The group's South African industrial operations registered the largest growth, particularly the food interests under C.G. Smith. The mining and minerals subsidiaries were constrained by sanctions and oversupply in coal export markets, and the international division, of which J. Bibby of the UK is the largest component, increased its profit contribution slightly despite poor trading results from the American packaging subsidiary.

In the past year the group reduced its consolidated debt by R489m from R2.7bn at the end of September 1986. Mr Clewlow said that the group planned to spend about R1.5bn on capital projects this year but believed this could be financed from cash flow without resort to significant borrowing.

At the end of September 1987 the debt to equity ratio was 50 per cent, against 63 per cent a year earlier. Net earnings rose to 275.6 cents a share from 212.3 cents and the total ordinary dividend has been raised to 100 cents from 80 cents.

Barlow Rand's largest shareholder is Old Mutual, South Africa's biggest insurance group.

Cigna leaves South Africa

BY OUR JOHANNESBURG CORRESPONDENT

CIGNA, one of the largest US insurance companies, has divested from South Africa by selling its interests to local management and staff for an undisclosed sum.

Cigna's South African offshoot wrote R82.5m ($41.4m) of gross premiums in the first 10 months of this year. Its underwriting profit during the period was R8.4m and its pre-tax profit, which includes investment income, was R13.6m.

In Johannesburg yesterday, Mr Bob Greenwood, the South African managing director, said that Cigna's divestment had been taken because of political pressures in the US. He said that a trust had been established to hold the South African company's shares on behalf of the 98 directors and staff members and that dividends would be declared as a fixed percentage of profits.

First Pacific buys stake in Thai group

By Our Financial Staff

FIRST PACIFIC International, the Hong Kong listed regional trading company, is to take direct control of a 32 per cent stake in Berli Jucker, a Thai distributor of consumer, pharmaceutical and engineering products.

This comes as a result of a further reshuffle of its links with Hagemeyer, First Pacific's 55 per cent-owned Dutch offshoot, which currently holds the stake in the Bangkok quoted company.

First Pacific plans to build a federation of trading and distribution companies which would have product lines that complement its marketing activities in other countries within the region. The deal, which makes it Berli Jucker's largest shareholder, is valued at some US$12.8m. The Thai company had net profits of $3.6m in the year to August on turnover of $132.6m.

Western Mining places rights issue shortfall

BY OUR SYDNEY CORRESPONDENT

WESTERN MINING, one of Australia's largest gold producers, has successfully placed a shortfall of 48m shares from its recent A$838m (US$574m) rights issue.

The one-for-four issue of 168m shares at A$5 per share closed on November 9. But it coincided with the collapse of world share markets, which hit Australian shares more than most.

Western Mining's paper fell from a year's high of A$12 to below the A$5 mark. Last Wednesday the price was A$4.35, but it rallied with the market to close yesterday at A$5.24, up 16 cents.

Yesterday, the group said it had arranged for Australian and overseas investors to take up the shortfall at the issue price.

The group said its financial advisers believed that in the current volatile market there was no prospect of selling the shortfall above the issue price.

News that the full amount has now been raised follows last Thursday's annual meeting at which Sir Arvi Parbo, the chairman, forecast operating profit for the first half of this year well in excess of A$83.5m

●A takeover plan has been abandoned under which control of **Wormald**, the Australian fire protection and security group, would have passed to Reil Corporation, an investment company controlled by Mr Phillip Cave. But Reil, which has 17 per cent of Wormald and management control, is to put up an alternative proposal which would result in a merger of the two companies' interests.

The original move was announced on October 16, just before the world share price collapse. Reil was to have acquired another 23 per cent of Wormald through the purchase of 41.3m shares at A$5 - a considerable premium over the then prevailing market price of A$3.50.

ANZ lifts profits and sees more growth

By Chris Sherwell in Sydney

AUSTRALIA AND New Zealand Banking Group (ANZ), the smallest of Australia's three private sector trading banks, yesterday reported a 22 per cent rise in after-tax profits for the year and forecast continued growth.

Group operating profits for the year to September were A$385.1m (US$263.8m) after tax and provisions, compared to A$315.4m.

The improvement came from all major activities, but the result was helped by the full inclusion of the New Zealand group results compared with 75 per cent in 1986.

Three months' profit from McCaughan Dyson, the Australian stockbroking firm, was also included once the bank moved from 50 per cent to full ownership in June.

Provisions for bad and doubtful debts charged against profits were reduced by 11 per cent to A$174m, but another A$158m was transferred to the general provision representing an abnormal item.

The bank said its exposure to borrowers in countries rescheduling debt amounted to A$1.52bn, 27 per cent of relevant exposure and 2.4 per cent of the group's total assets. The equivalent asset figure in 1986 was 3 per cent.

In the case of four unnamed countries, the bank said it was deemed prudent to make specific cross-border provisions against potential losses.

ANZ said it expected a slowing in world economic activity and in its own areas of operation but it had shown it could increase gross revenues faster than its rise in costs, was becoming less dependent on interest margins and had a diversity of revenue streams.

"With much improved returns forecast from offshore units in 1987-88 and in the knowledge that the ANZ culture is now becoming more entrenched globally, directors have a degree of confidence that results in the current year will again show acceptable growth," the bank said.

Japanese property groups well ahead

BY IAN RODGER IN TOKYO

JAPAN'S three top property companies have reported sharp increases in profit in the six months to September, thanks to booming market conditions.

Mitsui Real Estate, the largest property group, said its pre-tax profit was up 63 per cent to Y17.9bn ($131.7m) on sales of Y180.6bn, up 45 per cent. Net earnings per share jumped from Y9.68 to Y13.36 and the directors boosted the interim dividend from Y4 to Y4.50 per share.

Mitsubishi Estate, which owns some of the most prestigious land in downtown Tokyo, said its pre-tax profit rose 12.8 per cent to Y30.9bn, thanks to steady rental earnings and lower borrowings.

Total sales were up 7.4 per cent to Y109.7bn, mainly because of a 30.1 per cent rise in the design, construction supervision and contract work division. Sales in the land and building rental division were up 6.3 per cent. Real estate turnover dipped 0.3 per cent because of a slowdown in new condominium sales.

Sumitomo Realty, the third largest group, reported a record first-half pre-tax profit of Y9.8bn, 27 per cent higher than in the same period last year, thanks to one-time gains of Y6bn from selling a building and solid earnings from building leasing. Sales grew 29.3 per cent to Y57.8bn.

All three companies are forecasting further sales and profit improvements in the second half.

Kyocera earnings up by 34% at six months

BY CARLA RAPOPORT IN TOKYO

KYOCERA, the Japanese fine ceramics maker, boosted profits for the six months ended September by 33.8 per cent to Y20.6bn ($151.6m), largely because of the improvement in demand for semiconductors in the period.

The company, which is the world's largest maker of ceramic packages for integrated circuits, said sales jumped by 10 per cent in the six months on the back of a recovery in demand for microchips. Overall sales on a non-consolidated basis were Y131bn compared to Y119.3bn last year.

The company said the profit jump was also due to a reduction in costs and higher interest and dividend income. These factors more than offset a 27 per cent increase in the cost of sales and an exchange loss of Y300m.

Sales of semiconductor ceramic packages jumped by nearly 15 per cent, while sales of electronics and optical equipment went up by 31.1 per cent and 10.5 per cent respectively.

The company said it expects pre-tax profits to hit Y43.8bn in the full year on sales up 14 per cent to Y276bn.

Tax credit puts Carter Holt Harvey in black

BY OUR FINANCIAL STAFF

CARTER HOLT Harvey, the New Zealand forestry group, boosted net profits by nearly a quarter in the first half to September to NZ$60m (US$36.6m) compared with NZ$48.1m - although at the operating level it incurred a deficit.

The trading loss of NZ$3m was blamed on increased funding costs as well as the absence of exchange gains and export incentives. Operating profits in the comparable period of 1986 were NZ$46.6m, and the higher bottom-line outcome this time stemmed from a tax credit, a higher share of associated profits, and an extraordinary credit.

This last item, bringing in NZ$9.2m, stemmed primarily from financial transactions with its Chilean investments. Carter Holt said yesterday there had been a serious reduction in margins in both domestic and export trading in both New Zealand and Australia. Interim sales also dipped, to NZ$635m from NZ$646.4m.

For the full year, it expected a net profit of NZ$105m plus extraordinary gains of NZ$45m.

INTL. COMPANIES & FINANCE

Strong demand boosts Astra

BY SARA WEBB IN STOCKHOLM

ASTRA, the Swedish pharmaceuticals group, has increased profits by 11 per cent for the first nine months, helped by strong demand in Western Europe and a shift towards a more profitable mix of products, particularly cardiovascular and respiratory disease agents.

Profits, before allocations and taxes, rose to SKr1.01bn ($165.8m), compared with SKr907m the previous year.

The group expects full-year profits before allocations and taxes to show an 11 per cent increase on the 1986 figure of SKr1.15bn.

Astra said that it expects to launch two important new products next year Losec, an anti-peptic ulcer agent, and Plendil, which would be used for the treatment of high blood pressure.

Astra claims that Losec, which would compete with Glaxo's and SmithKline's anti-ulcer drugs, greatly reduces the healing period for ulcers.

Losec has so far received approval in France, whereas Plendil has been approved in Denmark, Australia and New Zealand. Applications in several other countries are awaiting approval.

Group sales rose by 10 per cent to SKr3.959bn, with 83 per cent going overseas. Most of the growth came from strong demand in Western Europe, but Astra said that sales to the US and Canada have been adversely affected in Swedish kronor terms - by the dollar's fall.

The company is heavily influenced by foreign currency movements, given that more than 80 per cent of sales arise outside Sweden. Turnover growth in West Germany has been relatively rapid in recent years.

The strongest growth in sales came from the respiratory disease agents division, where sales increased by 21 per cent to SKr907m. Cardiovascular agent sales grew by 8 per cent to SKr1.16bn, while local anaesthetics sales rose by 8 per cent to SKr894m.

Astra's profits during the first six months of 1988 improved by about 6 per cent to SKr674m, after financial items.

BMW sees continuing growth

BY OUR FINANCIAL STAFF

BMW, the West German motor group, expects higher sales and deliveries for 1987 and at least steady profits.

The company said sales were up 17 per cent to DM12.67bn ($7.52bn) in the nine months ended September. Deliveries improved by 0.2 per cent to 328,455 units in the period.

BMW forecast an orders surge for its recently upgraded 300-series models and continued strong sales of the top-of-the-line 700 series. This should smooth out any demand volatility resulting from the collapse in global stock markets, BMW said.

Last week, Porsche announced shorter work hours and production cuts because of the stock market crash and a sudden downturn in demand for luxury goods. This report sparked concerns that other German motor groups would be similiarly affected. Like Porsche, BMW is heavily dependent on US sales.

BMW said it expects profit to steady or climb compared with 1986, when net earnings totalled DM337.5m. Sales should increase from last year's worldwide group figures of DM17.5bn, it added.

Sales of the bottom-of-the-line 300 series fell in the nine-month period as customers awaited an upgraded version to arrive in showrooms, the company said. BMW said it would shortly announce a new motor for the four-cylinder 318i and 316i models. The group would also be introducing touring car versions designated 320i.

Since formally introducing the 12-cylinder version of the 700-series limousine just ahead of the Frankfurt motor show in September, the model has become the top seller in its class in Europe, BMW said.

Japanese in Paris deal

BY PAUL BETTS IN PARIS

KOWA REAL Estate Investment, *the Japanese property group* whose shareholders include big Japanese companies like Nissan, Hitachi, Nippon Life Insurance and the Industrial Bank of Japan, has invested FFr2.5bn ($437m) in a property development project in Paris.

The move reflects a general trend in large-scale Japanese prime real estate investment in major Western capitals. In Paris, Kowa has already acquired the *former headquarter building of* Charbonnages de France, the French coal board. It has also acquired 35,000 square metres of office space at Courbevoie, near the new Paris business district of La Defence.

The latest investment by Kowa Real Estate involves 72,600 square metres of office and commercial space in the Atlantique-Montparnasse complex, near the Montparnasse railway station on *the left bank of Paris, scheduled* for completion by 1991.

The property development will tie in with the railway station to be constructed for the new high-speed train service linking Paris with Nantes and Bordeaux. Work on the new high speed train link known as TGV-Atlantique is now starting. The high speed train, or *Train a Grande Vitesse (TGV)*, service is due to begin in 1990.

Sulzer close to acquisition

BY OUR FINANCIAL STAFF

SULZER, the Swiss engineering group which is locked in delicate negotiations with an unwelcome shareholder, expects to announce within days the acquisition of a Japanese company.

The purchase would take Sulzer into trading areas outside its traditional machinery construction business. It would not be related to Sulzer's attempts to *solve problems arising from* big shareholdings recently built up in the company, Mr Pierre Borgeaud, the president, said yesterday.

He declined to give other details until the company had notified its employees. This was expected to take place later this week. Sulzer also plans to acquire a medical technology company, probably in Europe, this year, or early next, Mr Borgeaud said. "We have several irons in the fire," he stressed.

A syndicate led by Mr Tito Tettamanti, a Lugano-based lawyer, *has made stock market purchases* of between 30 and 40 per cent of Sulzer. Talks are taking place between Mr Tettamanti and the Sulzer management.

The discussions have centred on finding an acceptable buyer for the share stake after a string of measures by Sulzer, mostly involving alterations to the company share register, aimed at making life uncomfortable for the new shareholders.

Sulzer directors said at the end of last week that they would like the shareholding to be sold to "an investor group supportive of our corporate strategy.

Sulzer has forecast at least maintained profits for this year. For 1986 group turnover totalled SFr4.55bn and net earnings were SFr67m ($48.3).

Limited support for Bugge rights

BY KAREN FOSSLI IN OSLO

BUGGE EIENDOM, Norway's financially troubled property company, which ran into liquidity problems after investors refused to subscribe to a NKr155m ($24.2m) rights issue, says that almost NKr29m has so far flowed into the company's accounts.

According to Mr Carl J. Hambro, Bugge's legal adviser, several institutional investors, including Christiania Bank, Den norske Creditbank (DnC) and Midland Bank of the UK, have taken the issue.

Problems, however, remain with three of the company's major shareholders, including Mr Niels Bugge, the former managing director, as well as with smaller investors, who have not yet paid their subscription fees.

This problem has been compounded by Mr Svein Aasmundstad, director of the Security and Banking Exchange Commission (Kredittilsynet), who last week advised Bugge's small shareholders to withhold subscription payments until more is known about the company's solvency position.

The remark could serve to undermine Mr Hambro's efforts to restore solvency to Bugge. Mr Hambro yesterday issued a terse letter to the commission's officials calling their advice to Bugge's investors irresponsible in the light of good practice.

Mr Hambro says that he now "sees light at the end of the tunnel." Bugge has U K property holdings estimated at NKr325.7m.

Deutsche Bank buys into estate agent

DEUTSCHE BANK, the biggest of West Germany's commercial banks, has taken a shareholding in Immobilien-Holding Zimmer, a Cologne-based estate agent.

The bank, which along with other German financial groups has been widening its trading services in recent years, declined to give any details of the size or cost of the shareholding.

Zimmer, which is family controlled and headed by Mr Martin Zimmer, is one of the big five German estate agents. It has about 50 employees and last year achieved a commission income of between DM200m and DM300m ($46m).

The company has a broadly based business ranging from private housing to industrial property and institutional services.

Deutsche Bank said that Zimmer would stick to the real estate business while the bank would continue to concentrate on its basic banking operations. However, the bank stressed that from now on each company would be able to offer clients complementary services as a result of regional co-operation.

Hydro wins first round in sell-off battle

By Our Oslo Correspondent

NORSK HYDRO, Norway's largest publicly quoted company which has interests in oil and gas, fertilisers, petrochemicals and metals, has won the first round in the challenge by Sweden's Naaringsfrihetsombudsmannen (competition ombudsman) to block a SKr250m ($36.76m) deal in which Norsk Hydro has sold its two Swedish industrial gas subsidiaries *and a stake in a Finnish gas* subsidiary to Aga of Sweden.

Norsk Hydro said that Swedish monopolies officials tried to block the sale with a stopgap measure while they rallied further support. The ombudsman argued that the deal would create a gas monopoly situation in Sweden for Aga.

The Swedish authorities have now taken the decision to a higher court, the Markets Court, in an attempt to permanently block the sale.

It is estimated the deal would boost Aga's share of the Swedish gas market from 73 per cent to 80 per cent. Air Liquide, the French gas company, has 20 per cent of that market.

Under the Norsk Hydro-Aga deal, Aga will acquire Norsk Hydro's two wholly owned Swedish companies, DFK Gas and Skandinavisk Gasteknik, as well as its 54 per cent stake in Finska Kolsyreindustri, a Finnish gas concern.

Danfoss wary on long-term prospects

By Hilary Barnes in Copenhagen

DANFOSS, THE unlisted Danish components manufacturer, said pre-tax profits for the year ended in September will be about DKr228m ($35m), which is unchanged from last year and slightly better than forecast after the first six months.

But the group said in a preliminary statement that current profits are not sufficient to maintain the long-term growth of the group.

Sales increased last year by DKr335m, or 6 per cent, to DKr5.74bn, reflecting mainly volume growth.

The Jutland-based group specialises in temperature control equipment, transmission equipment, oil fire burners, and hydraulic motors and controls. It has a workforce of about 13,100.

Danfoss said that sales growth in the current year would be slightly lower than last, but last year's high level of investment, of about DKr400m, would be maintained. It added that this forecast assumed that there would not be a worldwide depression.

Dealers wait for concrete news on the US deficit

BY CLARE PEARSON

THE WEEK got off to a slow start in the Eurobond market yesterday as dealers awaited fresh news on the US budget deficit.

President Reagan's weekend comment that he was confident that an agreement between congressional and White House negotiators - aimed at cutting the deficit by $80bn over the next two years - would be reached this week, had little impact on the bond market.

Dealers said they would hold back from buying dollar bonds until concrete news emerged. An agreement of some sort is likely this week; if one is not reached by Friday, $23bn worth of cuts come into effect automatically under the Gramm-Rudman budget reform legislation. But dealers said they would be waiting to see exactly what the new package would involve.

The President's statement that he thought raising taxes would be the wrong step in tackling the budget deficit, which depressed the dollar, came too late yesterday afternoon to affect European markets.

Eurodollar bond prices remained unchanged but were underpinned by the firmness of the dollar during European trading time. Last week, a comment by President Reagan that he did not want to see a lower dollar had triggered a bout of short covering in Eurodollar bonds.

Eurosterling bond prices opened sharply lower, by up to ¾ percentage points in the 10-year area, in the face of the firmer dollar and further gains in the UK equity market. The rally in shares over the last week has dimmed hopes of a near-term cut in UK bank base lending rates from the present 9 per cent.

Both Eurosterling and gilt prices improved later in the day as dealers took the view that the

INTERNATIONAL BONDS

dollar was vulnerable to any bad news on the budget deficit, and on a resurgence of hopes of lower UK interest rates in due course. Eurosterling bond prices ended unchanged, while gilts were about ¼ point lower.

Nippon European Bank appeared to be taking the view that hopes of lower European interest rates, which might follow from any satisfactory resolution of the US budget deficit, would buoy up the Ecu market when it launched a new issue in that sector for its parent, **Long-Term Credit Bank of Japan.** This was the only new Eurobond issue yesterday.

The Ecu100m seven-year 8⅜ per cent issue, priced at 101½, was bid at less 1⅞, the level of its total fees.

D-Mark bond prices drifted lower in very thin activity, depressed by the dollar's strength. However, dealers said there was too little faith that this phenomenon would be more than temporary to trigger any significant selling of D-Mark bonds. D-Mark Eurobond prices were marked down by about ¼ point while domestic bonds moved about ½ point easier.

The terms of a new **Federal Railway** bond emerged broadly in line with expectations. The DM1.3bn 10-year issue carries a 6⅝ per cent coupon and 100¼ issue price.

The bond excited little interest. It was quoted outside the consortium at less 1¾ bid, to give a yield in line with 10-year bank bonds.

The most recent DM2bn 6⅜ per cent 10-year **Federal Republic** bond issue started trading officially yesterday. Its price was fixed at 99¾, to give a yield of 6.41 per cent.

In Switzerland, prices ended the day firmer. Some dealers said demand was strong enough for a new issue in the foreign bond market, but none emerged. **Credit Suisse** and **Swiss Bank Corporation** launched issues, totalling SFr300m, in the domestic bond market.

Spate of accountancy mergers

BY RICHARD WATERS

AN UNPRECENDENTED spate of mergers in the Netherlands threatens to leave second-tier international accountancy groups with serious weaknesses.

Large firms are predicting similar mergers around Europe as individual national firms begin to recognise a need for stronger international representation to service their clients.

Touche Ross, one of the top eight international groups which form the first tier, announced yesterday that it is to acquire De Tombe/Melse, the Dutch member of Grant Thornton, a smaller international group.

The merger leaves Touche's Dutch firm with fees of more than Fl 300m ($157m), putting it close in size to Klynveld Kraayenhof (part of KPMG) and Moret & Limperg (Arthur Young), the two giants of the Dutch accountancy profession.

This follows the acquisition last month of Dechesne Van Den Boom, Spicer & Oppenheim's affiliate, by Ernst & Whinney, another big eight firm.

Price Waterhouse is in advanced merger discussions with Dijker en Doornbos, one of the founder members of BDO and the third largest accountancy firm in the Netherlands.

A fourth firm, Klynveld Kraayenhof, merged with Peat Marwick earlier this year as part of the international combination of KMG (the largest second-tier accountancy group) and Peat.

International accountancy firms are in fact affiliations of national firms, some of which have few obligations holding them together. Both Dijker and De Tombe will have to pay compensation for changing camp, but suffer few other penalties.

Other national member firms of the medium-sized groups around Europe are reported to be besieged with offers from larger firms.

"There's a quiet revolution going on out there," says a spokesman for Touche Ross.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on November 16

US DOLLAR STRAIGHTS | Issued | Bid | Offer | Change on day | week | Yield

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Nasdaq to tighten rules for dealers

By Stephen Fidler, Euromarkets Correspondent

THE NATIONAL Association of Securities Dealers of the US has announced plans to toughen the rules for dealers on the Nasdaq market following last month's collapse in stock prices.

The new proposals, now being refined, call for mandatory participation in the market's Small Order Executions Service by all market makers in Nasdaq securities. Currently about 210 of Nasdaq's 540 market makers participate in the system.

They will aim to make sure the SOES system, which permits the automatic execution of customer orders for up to 1,000 shares in many Nasdaq securities, continues to work even when the markets are volatile and moving fast. They also call for all Nasdaq market makers to participate in a clearing corporation.

To discourage dealers from withdrawing from trading issues, the association proposes to place a 30-day ban on a market maker if it stops making markets in issues for reasons other than those permitted under a narrow withdrawal provision.

The Nasdaq market was criticised during the market collapse late last month on two main fronts: that investors could not get through by telephone to dealers, and that many dealers withdrew from market making.

The proposals, which now go for public comment, are likely to make the obligations of Nasdaq market-making more significant, and could result in some dealers reducing the number of securities in which they are willing to make markets.

"The record Nasdaq trading volumes of October have made clear the limitations of telephone access in the operation of our market and the need to expand computer-to-computer execution of trades," said Mr Joseph Hardiman, NASD president.

He said that the charter of a NASD task force, formed in April 1986, had been widened to include a review of structural and quality of market issues, including the performance of systems and issues of dealers' capital, competition and obligations. It is being asked to report back within 120 days.

Toronto bank pulls out of Eurobonds

By Our Euromarkets Staff

TORONTO-DOMINION Bank yesterday announced the immediate closure of its Eurobond department, whose main activity had been market making in Euro-Canadian dollar bonds.

The withdrawal involves the loss of 16 jobs in syndication, sales and dealing at Toronto Dominion International, the investment banking arm of Toronto Dominion. But the bank said it would try to redeploy the affected staff.

Mr Douglas Farrell, a senior vice-president, said Toronto Dominion saw little prospect of making money in the Eurobond market and did not feel its success in other areas was dependent on a Eurobond capability.

Earlier this month, Orion Royal Bank, a leading market maker in the Canadian and Australian dollar sectors, withdrew from the market creating 150 redundancies.

The Canadian dollar market has become increasingly competitive over the last year, with new players entering in both the primary and secondary market areas.

Turkish bank raises $200m

By Our Euromarkets Staff

T.C. ZIRAAT Bankasi, Turkey's government-owned agricultural bank, is raising $200m in pre-export financing through a four-bank group led by Arab Banking Corporation.

The 15-month facility, to be guaranteed by the Turkish republic, carries interest at ⅛ percentage points over London interbank offered rates, and carries a commitment fee of ⅛ per cent. It is due to go into syndication this week.

The group also comprises Bankers Trust International, Bank of Tokyo International and Gulf International Bank.

Stefan Wagstyl on a Japanese steel group's change in strategy

Hanwa goes back to basics

MR SHIGERU KITA, one of the kings of the Tokyo financial markets, has virtually turned his back on *zaitech* - the business of investing surplus corporate funds in financial instruments.

The president of Hanwa, a medium-sized steel stockholding company, Mr Kita made bigger profits in recent years out of *zaitech* than almost any other Japanese industrialist - by taking bigger risks than the rest.

However, for the past six months - well before the stock market crash - Hanwa has been putting its funds back into steel, as well as chemicals, machinery and non-ferrous metals.

The company is going back to basics - investing in stocks of raw materials in anticipation of a continuing recovery in the Japanese economy which is expected to grow by 3.5 per cent this year - crash or no crash.

The glass-walled dealing room next to Mr Kita's office in Hanwa's Tokyo headquarters will stay open; Mr Kita says he does not want to miss any bargains. Yet his investments will be only a fraction of what they were when Hanwa put up to Y70bn ($515m) a day into the foreign currency market.

Mr Kita has a legendary reputation in the Tokyo markets, won by forecasting correctly the rise in the dollar in the early 1980s and then speculating on its fall after the Plaza Agreement of 1985.

Mr Kita hired able dealers, but the key decisions were taken by him personally. Sitting in front of a bust of himself in his office, Mr Kita says the secret of success was "not to go for the jackpot."

There is a Japanese proverb, he says, about throwing away the head and tail of a fish and eating only the middle. In finance, that means you should not go too far in trying to follow prices to their peaks but get out in time, he says.

Mr Kita denies that he was gambling his company in making risky financial investments.

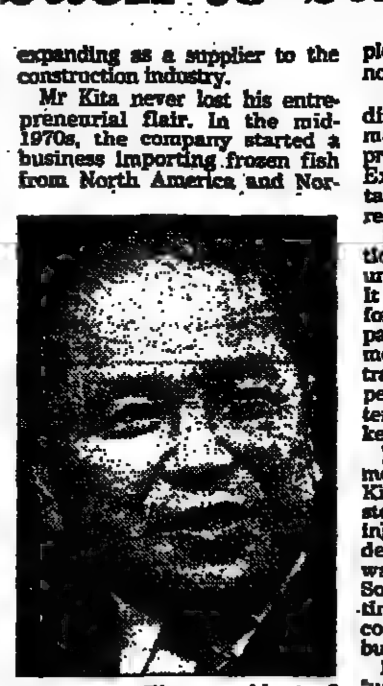
HANWA says that zaitech accounted for 72 per cent of pre-tax profits in the half year to September. Thanks to zaitech, operating profits of Y3.24bn were transformed into pre-tax results of Y12.5bn. The result was only marginally higher than last year's Y12.3bn, but Hanwa has been reducing its investments in financial markets since the beginning of the year. Sales were down 2 per cent to Y286bn but the company expects a sharp improvement in operating income in the second half, reflecting the recovery in demand for steel in Japan. For the full year to March, it forecasts sales of Y610bn and pre-tax profits of Y24bn.

The opposite was true, he says. He was trying to create a stable flow of profits to balance the profits from steel.

In practice, he went much further than this. In the year to March 1987, Hanwa's operating profits were only 36 per cent of its pre-tax total of Y17.6bn. Most of the rest came from *zaitech*.

This is a far cry from the 1946, when Mr Kita and two brothers started the business in Osaka, supplying steel to the a government-sponsored scheme for replanting Japan's war-damaged forests. Hanwa prospered by expanding as a supplier to the construction industry.

Mr Kita never lost his entrepreneurial flair. In the mid-1970s, the company started a business importing frozen fish from North America and Norway. He had no qualms about switching from steel to fish. "No-one was importing fish into Japan at the time. So we were in the same position as everyone else." Mr Kita himself flew to Alaska to sign deals with the fishing fleets.



Mr Shigeru Kita, president of Hanwa

Yet a keen financial sense, rather than spectacular commercial thinking, is really at the heart of Hanwa. Mr Kita says that from the earliest days the company bought land for its offices and warehouses "because land prices will never go down in Japan. There are so many people." The company's holdings are now worth about Y200bn.

Not surprisingly for a cash-rich distribution company, money management always figured prominently in Hanwa's plans. Expansion overseas naturally taught the company about currencies.

So Mr Kita rejects the suggestion that he plunged into the unknown in getting into *zaitech*. It was, he says, the obvious way for a commercial trading company to make the best use of its money. When margins on steel trading fell from 10 per cent to 1 per cent, the group could get better returns in the financial markets.

This changed in the early months of this year, when Mr Kita says he saw the Japanese stock and bond markets becoming too expensive. The dollar's decline was continuing but it was becoming less predictable. So Hanwa changed tack, just in time to catch a surge in Japanese construction which pushed up building material prices.

Mr Kita says that it was "unfair" that *zaitech* got a bad name as a result of the disastrous failure of Tateho Chemicals Industries, which this summer lost money in bond futures. "Tateho was very dumb," says Mr Kita," I think there are very few other companies like Tateho."

Mr Kita does not intend to abandon the financial markets entirely. His tip is to take advantage of the fall in the stock markets to buy the shares of Japanese industrial companies.

"Even with the appreciation of the yen, Japanese industry is growing and increasing in efficiency. The Japanese stock market will come back. In the US it's different."

NYSE members to face capital adequacy review

BY ALEXANDER NICOLL

MR JOHN Phelan, chairman of the New York Stock Exchange, said yesterday that capital adequacy of member firms would have to be reviewed in the light of the huge volumes and volatility experienced in October's stock market crash.

"In a 500-point environment, everybody has to look at their capital," he said, referring to the fall in the Dow Jones Industrial Average on "Black Monday," October 19.

Mr Phelan said there had been a "sea change" in the way equities were used, with growing takeover arbitrage, leveraged buyouts and new products such as portfolio insurance. These flourished in the bull market, with large amounts of trading among professional players. This had created a false impression of liquidity in the markets which was exposed when they fell.

Over-borrowing had contributed. "Markets were going more and more into debt. They were running without much cash being put up and with equity being withdrawn and substituted by debt."

See Lex

Beijer Capital acquires 30% holding in SOFE

BY SARA WEBB IN STOCKHOLM

BEIJER CAPITAL, part of the financial, trading, and industrial empire controlled by Mr Anders Wall, the Swedish financier, has acquired a 30 per cent voting stake in Sweden's Options and Futures Exchange (SOFE), one of the two rival Swedish markets, for SKr17m.

The deal makes Beijer Capital the largest shareholder in SOFE. It has acquired the shares from the Fourth National Pension Fund, the white collar workers' pension fund, and PM, the brokerage firm. These institutions have retained smaller shareholdings in the exchange.

Mr Michael Hasselquist, managing director of Beijer Capital, said that he believed that Beijer had managed to buy the shares cheaply because of recent scandals surrounding the Swedish options markets in which several banks and brokerages have made heavy losses, chiefly due to inadequate control by senior management.

Mr Hasselquist said that he expected volume to be low in the immediate future, and that it would take a few months before players returned to the market.

Alan Cane examines India's high-tech drive to 'avoid missing the industrial revolution bus for a second time'

A crusade held back by history

SAM PITRODA is already India's best known and most controversial technologist. A telecommunications expert who made his fortune in the US, he is the inspiration behind a three-year, £18m research and development programme that looks like taking Indian telecommunications into the 21st century with equipment designed, engineered and manufactured almost wholly in India.

A charismatic, iconoclastic figure, he has powerful patronage in the shape of prime minister Rajiv Gandhi, but all the patronage in the world would not help him if he could not deliver what he promised. Fortunately for Pitroda and for India, his Centre for the Development of Telematics seems to be achieving its goals.

Politicians and technologists who treated Pitroda with caution and suspicion three years ago are beginning to sing his praises.

Gandhi has rewarded him by putting him in charge of India's major social technological initiative, an ambitious and five-pointed attempt to apply technology to the problems of eliminating illiteracy among the country's 800m people, providing them with clean water, health care and efficient telecommunications, and reducing India's dependence on imported edible oils.

In India, however, such rapid promotion does not necessarily make one popular; his power and influence now raise more suspicions in some parts of the Government machine than his plans to build an indiginous telecommunications switch ever did.

Not that such disapprobation will worry the supremely self-confident Pitroda. His goal, in any case, he says is not to build telecommunications switches but to foment a revolution in the way India goes about its technology.

The problem is well illustrated by the two short articles which accompany this feature. On the one hand, Indian oceanology - it could as well be nuclear science or space science - is world class. Given the constraints on funds and equipment in India, its achievement in science is exceptional.

On the other, despite a host of well intentioned initiatives like Electronics City and SEEPZ, it is failing to improve the quality of its high technology manufactured goods or make much of a dent in world markets.

It has identified electronics as a key to industrial success - Gandhi worries about missing the industrial revolution bus the second time round and talks of having to run behind this bus, catch up to it and jump on it.

So plans have been made to grow the electronics subsector at 32 per cent a year during this, the seventh five-year plan since independence.

Those plans seems increasingly to be going astray. The World Bank in a recent analysis noted: "The subsector is relatively small, domestically orientated and internationally uncompetitive in quality and price in most production areas."

It goes on to argue that India can improve its performance and make advances in some foreign markets but this will depend on extension of the reforms now being carried through by the Government: "Encouraging continued access to foreign technology by domestic firms, deregulating the domestic economy and, in particular, fostering larger-scale production when essential to ensure efficiency; adjusting protection to allow cheaper and easier access to components and to electronic grades materials and to allow gradually some import competition for final products."

INDIAN electronics has, in fact, developed over the past few years isolated from the real world of competition by a barrier of import controls and restrictions. As a result, its process technologies are eight to 20 years out of date, and its product technologies are five or six years behind.

The rest of the world, for example, is already coming to grips with the manufacture and use of 32-bit microprocessor chips - the Intel 80/386 which powers IBM's new personal computers or the Motorola 68000 family used in the Apple Macintosh. India's only commercial microprocessor manufacturer, the Semiconductor Complex Limited situated in Chandigarh in the troubled Punjab, is building 8-bit microprocessors, the SCL 6500 family, used, for example, in the BBC Microcomputer.

The quality of SCL's output is high - its list of foreign customers includes Siemens and Junghans of West Germany and Sigma Electronics of Hong Kong, but it is only now beginning to develop the advanced chip making techniques needed for more advanced semiconductors.

Meanwhile, expatriate Indians are the mainstay of electronics and other scientific development programmes in other countries.

The reasons for this yawning gap between basic ability and lack of commercial follow-through are complex and include all those listed by the World Bank. But there is also the question of Indian attitudes to research and development, attitudes that Sam Pitroda is trying, by example, to change. He is especially concerned with the poor self-esteem felt by many Indian technologists.

And he is by no means the first to identify or tackle the problem. The late Homi Bhabha, architect of India's nuclear programme, had a profound insight into the problems of the Indian sciencitific establishment.

Indian science is hierarchical, rigid in structure and built round the concept of the talented individual - an exaggerated form of the UK research idea of building programmes of timeliness and promise around individuals with energy and insight.

A VENERATION for pure science at the expense of commercial and practical interests has resulted in India. Bhabha tried to change all that. He emphasised the value of applying theoretical knowledge. He encouraged his researchers to work in teams and he showed them there was no shame in being wrong: "If you are going to succeed, you must take risks" was his credo and it has been burned into the souls of a generation of Indian scientists.

But changing attitudes in India takes time, which is why Sam Pitroda's Centre for Telematics (CDoT) is as important for the egalitarian example it is setting as for the switches it is engineering.

TEAM WORK is favoured over lone enterprise, goals are set and expected to be achieved, assumptions are questioned endlessly, authority has to be won through ability rather than achieved through seniority.

For many of the staff, it has proved a profoundly unsettling experience. Pitroda had to bring in a psychologist at one stage to help smooth ruffled feathers.

Now irreverent posters line the walls of CDoT headquarters, reflecting the immense pride and satisfaction its young engineers feel at having achieved what the outside world said was impossible. Sam Pitroda has succeeded in building self-esteem as well as switches. Many feel it would be a pity if political jealousies damaged his crusade to rejuvenate Indian technology.

Technological echoes of the 1950s: Current production line of Rajdoot motorcycles.

Sam Pitroda: Powerful patronage in the form of Rajiv Gandhi.

Santa Cruz Electronics Exports Processing Zone on the outskirts of Bombay.

Pictures: Ashley Ashwood

Innovation on crest of a wave

THE UNITED Nations three months ago gave India an exclusive green light to exploit its greatest natural resource, the ocean which laps against its 6000 kilometres of coastline.

In doing so, it acknowledged tacitly that India has now achieved a maturity in marine science that should enable it competently to undertake ocean research programmes involving high expenditure, high risk and high technology.

S.Z.Qasim, head of the newly formed Department of Ocean Development, says that in the past such undertakings would have been considered an exclusive monopoly of rich and developed countries.

The United Nations, however, in August announced that India was the first country in the world to be registered as a "pioneer investor" under the law of the sea, with the rights to exploit commercially an area of 52,300 square kilometres in the central Indian Ocean basin.

Now the 30 or so Indian institutions directly involved in ocean research are preparing for the first stages of an ambitious programme that should see the country wresting wealth in the form of polymetallic nodules from the sea bed.

Polymetallic nodules, dull, dark rocks the size and shape of cricket balls, contain metals including manganese, nickel, copper, cobalt, molybdenum, vanadium, zinc, lead and cadmium.

Experts believe that the economic potential of the metals contained in the nodules is so great that at the present rate of consumption, there will be adequate supplies of these important metals from the sea for thousands of years.

But reclaiming this undersea wealth will not be cheap. The Indian programme will involve survey and exploration, mining, extraction of the metals and transportation and marketing.

The cost for the retrieval and processing of 1m tonnes of nodules a year could be as high as £400m.

Qasim thinks that India's pioneer investor status is a major achievement for a country which has to watch its research budget so closely. There is a long way to go before it can reap the benefits of its initiative; planning, surveying and attention to the environment will all take time: "It will be eight to 10 years before we can begin mining in earnest," says Qasim.

Why vital spark is missing

"ELECTRONICS CITY", near Bangalore in south India, and the Santa Cruz Electronics Export Processing Zone (SEEPZ) on the outskirts of Bombay, epitomise India's attempt - and its failure so far - to become a world force in electronics.

Both were founded on industrial principles that had been tried and tested in other countries. Neither has yet lived up to the hopes vested in them by politicians and industrialists.

Electronics City is based in Karnataka state, the acknowledged leader of the Indian electronics business. Karnataka is home to many of the largest Indian electronics-based companies including Bharat Electronics, Indian Telephone Industries and Tata.

The idea was to create an Indian equivalent of California's Silicon Valley, a self-contained area managed by the Karnataka State Electronics Development Corporation (Keonics) with financial incentives for companies setting up in business there (these include a subsidy for the purchase of generators; Bangalore, the fastest growing city in India, is chronically short of both electricity and water).

Growth, however, has been slow enough to warrant critical mentions in official reports. The plan fell foul of Government regulations, now relaxed, which encouraged the dispersion of high technology industry to remote areas. And younger industrialists complain bitterly about the red tape: "As you grow, it squeezes you more and more until you are big enough to make the regulations yourself," one said, encapsulating in a sentence the hierarchical nature of Indian industry.

SEEPZ was meant exclusively for 100 per cent export of products, allowing foreign companies to establish wholly-owned subsidiaries and repatriate profits. Foreign companies operating in India itself are not allowed a majority holding in their subsidiaries.

Established in 1974, there are 71 industrial units employing 8000 workers in the zone contributing nearly two thirds of India's total electronics exports.

But although the resident companies praise the SEEPZ facilities, growth is disappointing.

One reason is the shortage of foreign exchange which makes it difficult for SEEPZ properly to advertise its advantages abroad. Another is the appalling makeshift city of cardboard and canvas houses which has sprung up along the road to SEEPZ. It was not there when the zone was established; now it actively discourages foreigners from establishing their operations there: "Would I have to come through that every day," one businessman queried before deciding to locate his factory elsewhere.

Unilever over £1bn at 9-month stage

BY FIONA THOMPSON

VOLUME GROWTH and the effect of acquisitions helped **Unilever**, the Anglo-Dutch consumer products and foods group, boost third quarter pre-tax profits by 25 per cent from £319m to £400m, beating City expectations of about £375m. Sales, at constant exchange rates, rose 11 per cent to £4.65bn (£4.19bn).

Yesterday's results brought pre-tax profits for the nine months to September 30, 1987, to £1.12bn, a 30 per cent increase on the £865m reported for the first three quarters of 1986. Turnover for the nine months was £13.73bn (£12.68bn).

Operating profit for the third quarter was up 37 per cent at £423m, compared with £308 last year. North America did particularly well, significant contributions from Chesebrough-Pond's and Lipton lifting operating profits in this division from £35m to £90m. Chesebrough, acquired in December last year, was responsible for increasing total group turnover for the nine months by 5 per cent and operating profit by 12 per cent.

Lipton showed strong results, its Fun Fruit doing very well, and Chesebrough's ragout sauce gained market share. Lever Brothers, household products, expanded its sales spread across the country of Surf Powder, Sunlight and Surf Liquid.

In Europe, frozen foods, as well as food and drinks, made particularly strong gains, pushing operating profit there to £231m for the third quarter, compared with £191m last year.

Businesses in Unilever's third geographical area - the rest of the world - performed well, lifting operating profits there from £82m to £102m. Strong sellers were edible fats, dairy and personal products. While the position remains difficult in francophone West African countries, there were substantial volume gains in Latin America, previously a problem area.

The tax charge for the third quarter was £173m, against £133m, and interest payable totalled £64m, up from £48m last time.

Earnings per share for the quarter were 11.1p (9.7p), giving 31.63p against 25.6p for the nine months. The company announced an interim dividend of 3.54p, up from 2.998p.

The shares closed 7p up at 470p last night.

● Unilever yesterday confirmed its intention to sell its Thames Board packaging subsidiary. It was not a core business and its staff had been told the intention was to dispose of it if a suitable offer was made. Since January 1 this year Unilever has spent £170m acquiring 18 companies, and disposed of 25 companies, earning £1.6bn.

See Lex

FULL-SCALE OFFER PUTS VALUE OF A$187M ON BUSHELLS

Unilever Australia, a wholly-owned subsidiary of Unilever PLC, has made an offer for all the shares in Bushells Holdings, manufacturer and distributor of tea, coffee and canned fish in Australia and New Zealand. The Unilever Group already holds a 48.9 per cent interest in Bushells through its ownership of the Brooke Bond Group, writes Fiona Thompson.

The bid values Bushells at A$187m (£72m), and will be in the form of a cash offer of A$2.30 per share. The price represents a premium of 21 per cent over Bushells' closing price on November 13. The approval of the appropriate Australian authorities has been obtained and offer documents are due to go out in three weeks.

For the year to June 27, 1987, Bushells' sales were A$210m with net earnings of A$10.8m.

Subsequent to the bid announcement, Unilever Australia yesterday purchased 1m Bushells' shares at a price of £2.30 per share, taking the group's entitlement from 48.9 per cent to 50.2 per cent.

Unigate down 14% at midway but better trend expected

BY MIKE SMITH

Unigate, the food, transport and exhibition services group, yesterday blamed a series of extraordinary factors, including poor summer weather, for a 14 per cent downturn in pre-tax profits.

The market had, however, been expecting a worse performance and the shares rose 9p to 295p.

Unigate made taxable profits of £40.2m (£47.1m) on sales of £1.06bn (£951.5m) in the half year to October 3. Earnings per share were 11.7p (13.9p) but the dividend was lifted 10 per cent from 4.5p to 4.95p. Mr John Clement, chairman, said he hoped for an improved performance in the second half. Profits so far were broadly in line with those of last year.

Looking further ahead, he was confident that the strength of management and the benefits from continuing investment would enable the company to move ahead in 1988/9 and thereafter.

The cold, wet summer hit profits in the food division, with demand for yoghurt, soft drinks and red meat particularly affected, but other factors cited by the company for the profits fall were:

●The high cost of pork which put margins at Malton Bacon under pressure;

●A move away from red meat eating as a result of the Chernobyl nuclear accident;

●The lack of supplies of milk for cheese at certain times because suppliers could get better prices from the EEC intervention scheme.

John Worby
"Gearing will improve"

The divisional break-down of operating was profits was: UK Food £13.6m (£18.4m); Unigate Dairies £13.8m (£14.6m); Wincanton, the car fleet hire and distribution company, £9.5m (£6.5m); Giltspur, exhibitions company, £1.7m (£3.4m); International £6m (£4.9m); other activities £1.1m (£1.7m).

The outstanding performer was Wincanton, which made "excellent progress" in each of its principal areas but Giltspur saw profits fall 50 per cent, partly because of the cost of a factory relocation, which is now complete, and partly because of the sale of engineering subsidiaries.

In International, the Black-Eyed Peas restaurants made a strong initial contribution, in spite of the weak economy in the south-western US.

Net debt at the end of the half year was £177.9m against £76.7m but Mr John Worby, finance director, said these were significantly distorted by the timing of acquisitions and disposals and gearing would improve. Finance charges were £6.7m (£3m).

The tax rate was down from 34 per cent to 33 per cent.

Total capital expenditure increased to £50m, against £38m, and 45 per cent of this was for expansion.

See Lex

Reed again expands in US

BY RAYMOND SNODDY

Reed International, the UK publishing, paper and packaging group yesterday continued its drive into the US consumer publishing market with an agreement to buy Modern Bride from Diamandis Communications for $50m in cash.

It is the second US consumer magazine purchase by Cahners, Reed's US publishing company which consists of more than 50 trade and professional magazines.

Last year the company paid $40m for American Baby a controlled 1.1m circulation monthly magazine.

"The purchase of Modern Bride represents an important second step in Cahners strategy of building a presence in the publishing of specialist consumer magazines," Mr Peter Davis, chief executive of Reed International said yesterday.

Modern Bride is a paid-for bimonthly with a circulation of 326,000 and an estimated total readership of 2.35m. In the year to December 1987 a net profit of $6m is forecast compared with $4.7m last year.

The purchase price is dependent on the $6m profit forecast being met.

As part of the deal Diamandis,the company formed last year as a management buy-out of the CBS Magazines division will also receive $13.7m in return for undertaking not to set up a competing publication and for consultancy services.

Reed which in recent months has been placing increasing emphasis on publishing, particularly in North America, has been negotiating with Diamandis for some time. The UK company said yesterday that an offer made in mid-October was withdrawn and the price renegotiated "to reflect recent market developments".

"Our projections of the short term profitability of Modern Bride within Cahners are such that this acquisition will not lead to any earnings dilution," Mr Davis added.

Reed's profits in the year to March were ahead of most expectations at £188m - 37 per cent up on last year.

Borland rises strongly in opening six months

Borland International, California-based publisher of microcomputer software, raised its profits from $3.15m to $4.85m (£2.77m) pre-tax in the six months to September 30. Profits for the second quarter surged by 94 per cent to $2m.

Sales and royalty income for the half year increased from $14.37m to $25.64m. Mr Philippe Kahn, the USM company's chairmen, said yesterday that growth in turnover and profits came not only from sales of new products products introduced during the period, but also from the continuing strength in sales of existing products.

He added that this was in line with Borland's plan to maintain a product range whereby sales from no one product dominated revenues.

The results for the opening half year included those of Ansa Software from September 22, the effective date of the acquisition.

Mr Kahn said Ansa was continuing to be integrated and that he expected to see increasing benefits to both sales and profits.

Half year tax accounted for $1.98m ($1.31m) leaving net profits $1.04m ahead at $2.87m. Earnings amounted to 5.7 (4) cents or at 5 (3.5) cents fully diluted. The interim dividend is a same-again 0.75 cents.

Since the half year end Borland had formed a Macintosh software division, thus extending its commitment to what Mr Kahn described as the growing Macintosh market.

● comment

New products are the life and soul of any software company - although sales of existing packages fell slightly in Borland's first half, revenues rose by 78 per cent. That makes predicting the future an even more tricky business than usual as indicated by last year's profits drop, caused by a delayed product launch. For the immediate future, hopes are pinned on Quattro, the spreadsheet programme, which has had good reviews in the computer press - there is no guarantee, of course, that real sales will result. However, the upside potential is that much greater if Quattro does become accepted. For the full year, analysts are looking for $13.5m which at current exchange rates, puts the shares, up 15p to 140p yesterday, on a prospective p/e of 17. That rating is probably far too high or far too low, depending on how well the new products go.

R-R share limits exceeded

BY RICHARD TOMKINS

OVERSEAS investors holding about £55m worth of shares in **Rolls-Royce**, the recently privatised aero-engine maker, are to be forced to sell them into the market place - in many cases, at a very severe loss it emerged yesterday.

The company announced that its share register had now been completed and showed that the number of its shares in foreign hands was 46m above the maximum level of 15 per cent permitted by its articles of association. The surplus represents 6 per cent of the total equity.

Notices were being sent out yesterday to holders of the 46m shares telling them to dispose of the stock to British investors by January 11. The orders are being sent on a last in, first out basis.

If holders fail to meet the deadline, the company will arrange the sale on the holder's behalf at the best price it can get.

Unless the shares make a sharp recovery in the intervening period, the holders will take heavy losses because most of them bought the stock at substantially higher levels.

The shares were issued at a fully-paid price of 170p in May this year and shot up to 232p when dealings began, reportedly on heavy buying from overseas.

However, they have fallen dramatically since, partly because of fears that compulsory sales would become necessary and partly because of the market crash. Yesterday they were down another 5p at 114p - less than half their best price.

The initial register takes account of all transfers received and certified up to the record date for dividend payment of November 6. Any shares becoming foreign held between then and January 11 will be classified as excess holdings and will also have to be transferred.

Newman Tonks Spanish buy

Newman Tonks,the building supplies group which has launched an acquisition programme in Continental Europe, yesterday announced that it is paying £1.3m for a 90 per cent stake in a Spanish door component manufacturer.

This is its second European acquisition in the past few months. In September it paid £1.84m for Wehag Leichmetal, producer of one of West Germany's leading brands of residential architectural hardware.

The Spanish company is Telesco, which is based in Barcelona, employs 60 people and is the Spanish market brand leader for overhead door closers. It has annual sales of around £2m. Sr Elizalde, the former owner of the company, will retain a 10 per cent interest and remain general manager.

Newman said Telesco's position in the Spanish market would enable it to take into the Spanish market many of Newman's hardware products concerned with safety and security.

Mr Doug Rogers, chief executive of Newman, said the deal was part of the company's plans for a network of inter-related companies on the Continent. Further European investments were being explored.

Caird disposal

A Caird & Sons, property and environmental services group, has exchanged contracts for the disposal of the property known as 28-30 Rivington Street, London, EC for a cash consideration of £600,000. The property was acquired last month.

The board intended to develop e property, but the offer received was in excess of anticipated values. The proceeds will add further to the group's cash balance and will be employed as opportunities arise in new property schemes or in environmental services.

Oakwood in £1.2m property deal

In **Oakwood Group's** interim report on July 3, it was stated that an offer had been accepted for the sale of Westminster Bridge Road premises. The offer did not proceed and those negotiations were terminated.

The Westminster Bridge Road premises have now been sold for £1.2m, paid in cash. The premises were formerly the head office of a subsidiary, but have been vacant since last December. No income has been received in respect of the premises and the cost of maintenance and other outgoings has had a negative influence on the group's earnings.

The premises were included in the balance sheet as at September 30 1986 at £556,871 and were valued on the basis of open market value with the benefit of planning permission for offices of 30,000 sq ft (gross) on September 21 1987 at £1.2m.

AIC stake in Wills Group

Australian Investors Corporation - the listed Australian investment company where fund management group, Clayton Robard, owns a 32.5 per cent stake - has ended up with a 25.5 per cent stake in **Wills Group**, the UK-based financial services and import company, following its 190p-a-share offer.

Investment clients of Clayton Robard own a further 30.1 per cent of Wills. Moreover, Tyndall Holdings, the UK fund management group which has a 62 per cent stake in Clayton Robard, has another 1.5 per cent, and its own investment management clients have a further 7.7 per cent.

The remaining 35 per cent of Wills is either owned by shareholders who did not accept the offer, or has been placed out with institutions at 190p a share. The listing is being retained.

Ivory & Sime rises but warns on market crash

BY CLAY HARRIS

Ivory & Sime, the Edinburgh fund manager, increased interim pre-tax profits by 31 per cent to £2m (£1.52m) but said yesterday that the stock market crash and decline of the dollar would adversely affect full-year results.

Ivory & Sime's shares have underperformed the FT All Share Index by more than 25 per cent since the crash, in part because of its trusts' high exposure to smaller US companies and technology issues and in part because of evaporation of takeover speculation involving Antipodean investors. The shares were unchanged yesterday at 128p.

Turnover in the six months to October 30 advanced by 21 per cent. to £4.68m (£3.87m), a quicker pace than the 16.4 per cent rise in administrative expenses to £2.59m (£2.23m). In a declining market, however, the position would be reversed.

Funds under management have fallen to an estimated £2.5bn from about £3bn at September 30. The decline, less than that in world markets as a whole, reflected a quick shift into a defensive mode, the company said yesterday.

Earnings per share rose to 4.82p (3.75p). The interim dividend is unchanged at 1.25p.

See Lex

US stake in ICI

US shareholdings in **Imperial Chemical Industries** through Morgan Guaranty Trust is now 10.25 per cent of the company - a modest fall from the level of just under 12 per cent seen during the summer. The company said, "We are quite happy that the level of trading has been as low as it has and pleased that the Americans have stuck with us."

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding div	Total for year	Total last year
Borland §	int	0.75	Jan 15	0.75	-	2
Clyde Blowers	fin	6.32	-	6.32	7.15	7.15
Ivory and Sime	int	1.25	-	1.25	-	5.75
SAC Intl.§	fin	2.5†		1.35†	3.5†	2†
Share Drug §	fin	1.9	Jan 22	1.5	3	2.4
Spandex §	int	1	-	-	-	2
Trimoco	int	0.4†	Jan 29	nil	-⁑	0.3
TR Technology	int	0.3	-	0.25*	-	0.95*
Unigate	int	4.95	Jan 8	4.5	-	11.5
Unilever	int	3.54	-	2.998	-	10.28
Velez	int	4	Feb 15	3.8	-	10
Wardle Storeys	fin	6.6	Jan 14	4	9	6
Woodchester	int	0.6‡	-	0.5‡	-	1.25‡

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. Unquoted stock. Third market.US cents.‡ Irish pence. ⁑ Special dividend of 0.22p paid.

Company News In Brief

WARD HOLDINGS has raised a £40m syndicated revolving loan in order to finance its future activities on a much more cost-effective basis.

RTZ subsidiary Hi-Tek Polymers has acquired Lyndal Chemical, a division of New York based Millmaster Onyx for approximately US$9m.

BOM HOLDINGS is to acquire Bevan Trading. The terms of the acquisition, which is subject to shareholder approval, include the initial payment of £500,000 followed by profit-related instalments over the next three years.

W A HOLDINGS:Under the terms of an agreement dated September 9 1986 between the company and the vendors of KD Thermoplastics, the company is making a further consideration payment of £225,000 to the vendors, which is being satisfied by the issue of 274,700 ordinary and cash payment of £143,000.

HARMONY LEISURE said 61 per cent of recent rights issue of 13m new ordinary has been taken up by shareholders. Issue was underwritten by Capel-Cure Myers.

MIM, following recent purchases, now holds 2.06m shares (5.63 per cent) in Grampian Holdings.

UK COMPANY NEWS

Unigroup share dealing probe

BY CLAY HARRIS

LORD YOUNG, Trade and Industry Secretary, announced yesterday that inspectors had been appointed to investigate possible insider dealing in shares of **Unigroup**, the timber, building and clothing group.

The DTI also said that inspectors were currently conducting a total of 10 insider dealing investigations, of which only one - involving a junior official at the Office of Fair Trading - had previously been announced. Ten other cases are being considered for investigation.

Inspectors were appointed on October 19 to investigate dealings in Unigroup shares between September 1 and October 8. Appointed under Section 177 of the 1985 Companies Act, they have powers to require any person to provide documents and to be examined under oath. Refusal to co-operate can carry the same penalty as contempt of court.

Unigroup shares were suspended at the company's request on October 8. Four days later, Unigroup announced that Mr Ivor Goodman had resigned as chairman and said that Mr Goodman had given away his holding of 690,000 shares - 5.37 per cent of the company - not long before the suspension. The recipient of the shares subsequently sold them.

Earlier this month, Chase Manhattan Securities confirmed that it had issued writs against Mr Goodman and Miss Linda Fitzgerald, alleging breaches of insider trading rules, conspiracy and misrepresentation, and claiming damages.

Mr Robert Purdy Wilkinson, head of the Stock Exchange's surveillance department, is one of the Unigroup inspectors. The other is Mr Stephen Philp Waller, a junior counsel.

Poor start to year for SR Gent

BY ALICE RAWSTHORN

S R Gent, one of the leading suppliers of women's wear to Marks and Spencer, yesterday announced that its trading performance in the first four months of the present financial year had been "disappointing".

Mr Peter Wolff, chairman, told shareholders at the company's annual meeting that the children's wear and casual wear businesses had fared well, but that this success had been insufficient to compensate for the poor performance of other divisions.

Children's and casual wear accounted for roughly a quarter of Gent's sales in its last financial year. The company declined to identify which areas of activity had suffered most severely. But it is heavily dependent on its traditional dress manufacturing interests and, despite recent efforts to broaden the base of its activities, is still heavily reliant on Marks and Spencer. Last year M and S provided 90 per cent of its turnover.

M and S suffered from sluggish clothing sales in the spring and summer of this year. Wood Mackenzie, the stockbrokers, estimates that its clothing sales fell in real terms by more than 5 per cent in the six months to October.

The Gent announcement is an indication that M and S may also have lost ground in the clothing market during the autumn sales season. Gent is a contract supplier to M and S. Under this system M and S commits itself to take a specified volume of clothing from Gent. It then "calls-off" parts of the contract as the season proceeds.

If sales fall below expectations then M and S reduces the level of its regular call-offs. This is what has happened in the past few months. Mr Wolff said yesterday that Gent's perfomance in the first half of the year will be reliant on the pattern of trading in the Christmas sales period.

Three years ago Gent suffered when M and S's sales faltered. It returned to profit last year, having diversified its production into other clothing sectors to reduce its reliance on dresses.

Gent recently moved into home textiles - principally as a supplier to M and S - but this venture is still at an "experimental" stage, sales are modest and it has yet to break even.

Two more rights issues crash

By Nikki Tait

A £35.6m rights issue from **United Scientific Holdings**, the defence equipment group, yesterday became the latest victim of the stockmarket collapse. Only 0.67 per cent of the company's 5.5 per cent convertible preference share issue has been taken up by existing shareholders and the remainder is being left with the underwriters.

Marina Development Group, however, fared somewhat better - seeing 1.3m (17.45m) of its 7.45m new rights issue shares taken up by its existing investors. Again, underwriters will pick up the rest. The Marina Development cash call was raising £37.27m - most of which will go to fund the £23.5m purchase of five marinas from the Rank Organisation.

Phoenix buys Cox Long in £1.6m deal

Phoenix Timber has acquired **Cox Long**, Staffordshire-based timber importing, merchanting and components company. It is paying £1.6m cash, plus a deferred profit-related payment of up to £250,000, dependent on the profits of Cox Long for the year to March 31 1987.

The acquisition of Cox Long is part of Phoenix's new strategy, which concentrates on three core areas - property care services, timber importing and distribution and the manufacture of timber-related building materials.

Mr. Peter Quinn, chairman, said the acquisition would extend Phoenix's coverage in the important Midlands market.

The present management of Cox Long will continue to manage the business. Cox Long reported pre-tax profits of £102,000 on total sales of £8.9m for the year to March 31 1987, although Mr Quinn expects a significant improvement in profits.

Cox Long is Phoenix's third acquisition since Mr Quinn became chairman in March 1986. Since then, losses of £973,000 for the year to March 1986 have been transformed into pre-tax profits of £641,000 for the year to March 1987.

The purchase of Cox Long uses the remaining cash from Phoenix's £3.7m rights issue in June. Gross capital gearing is now up to 80%.

SAC Intl doubles profits to £3.2m

SAC International, the USM quoted design engineering group, almost doubled its pre-tax profit from £1.66m to £3.24m in the year to end August 31 on turnover which was 89 per cent ahead at £38.1m.

However, Mr Roger Smedley, chairman, pointed out that this represented a shortfall of £946,000 in the profit forecast of £3.1m (excluding the acquisitions of ISI, Sabre and B & R Taylor) made in July 1987 at the time iof the acquisition of B & R Taylor (Holdings).

Mr Smedley said the principal reasons for this shortfall were: a reduction in forecast profit amounting to £346,000 due to customer selected sub-contractors failing to deliver within the original timescale certain key components on an overseas contract: a loss of profit amounting to £180,000 due to retaining design staff pending certain contracts expected prior to the year end: In August a major client of the US operation went into bankruptcy which resulted in a bad debt of £129,000 and an accounting error in the third quarter within one of the operating companies in the treatment of an advanced payment of £213,000 and in the recording of credit notes totalling £80,000.

Cash in hand and at the bank totalled £4.54m (£1.4m) at August 31 last.

Gross profits last year totalled £9.62m (£3.9m) and adminstration costs to £6.03m (£2.15m). There was an exceptional debit of £129,000. Tax took £1.2m (£647,000) leaving earnings at 10.64p (8.15p)

The final dividend is 2.5p (1.35p)

Beazer bid to buy minority holding values Tod at £29m

BY PHILIP COGGAN

Tod, the plastics manufacturer, is no longer going to survive on its tod! Spun off onto the Unlisted Securities Market by C H Beazer in 1984, the construction company is now offering to buy back the minority stake and make Tod a wholly-owned subsidiary once again.

Beazer is offering 260p per share in cash for the 31 per cent of Tod which it does not already own. The offer values Tod at £29m, compared with the £8.6m market capitalisation which it had when it joined the USM three years ago.

The decision to re-absorb Tod into the parent group was only made very recently. Just two months ago, Tod raised £7.2m via a rights issue to fund the acquisition of Giltspur Technologies and Wincanton Engineering from the Unigate group. At that time, said Beazer, it had no plans to buy the minority holding.

However, although Tod's results for the year ended June 30 were satisfactory - it made pre-tax profits of £2.1m - the company's subsequent performance has not matched expectations.

Problems were experienced in particular at Straeker Construction where delays on a major refurbishment contract and provisions on certain other contracts are likely to have a substantial impact on the current year's trading results.

Beazer now thinks that it would be in the best interests for Tod to revert to being a completely owned subsidiary. Tod has, believes Beazer, succeeded only to a limited extent in establishing a separate identity, having under 250 shareholders and a limited market in its stock.

Absorption by the parent company would, argues Beazer, ensure consistency of commercial and other objectives and free the management from the need to promote Tod as an independent public company. Tod will become part of Beazer's products and services division.

The offer price of 260p is considered fair and reasonable by Tod's advisers, Phillips & Drew, and represents a 18 per cent premium over Friday's closing price of 220p and a 5 per cent premium over September's rights price of 248p.

TR set to reconstruct trust

BY NIKKI TAIT

Touche Remnant, Britain's largest investment trust group, is currently looking at ways of reconstructing another of its funds - this time, the £320m TR Technology Investment Trust - with a view to reducing the difference between the fund's asset backing and its share price.

News that the technology fund's board is considering discount-eliminating moves comes less than one week after shareholders in the £161m TR Pacific Basin Investment Trust approved a scheme giving them the option of switching into a new investment trust, specialising in smaller Far Eastern markets or a Guernsey-based investment company, which will trade at a price directly related to net asset value.

The TR Technology board said yesterday that it "expects to be able to put proposals to shareholders in due course." However, TR stressed that the scheme suggested would not necessarily be a carbon copy of that adopted by TR Pacific Basin.

"TR Technology has a very different structure and investment emphasis," said Mr Brian Ashford-Russell, TR Technology manager. "It has a relatively high proportion of illiquid and unquoted stocks, and we're looking at a number of schemes at the moment."

Over the past two months, the TR Technology fund has seen a substantial shareholding built up by a Jersey-based company, Firmandale Investments, and yesterday the investor announced a further 0.3 per cent addition, taking its total holding to 71.9m shares or 16.64 per cent.

The ultimate ownership of Firmandale is still unclear, although it is rumoured to trace through Hong Kong, possibly to Antipodean interests.

Firmandale is, however, advised by fund management group, Berkeley Govett.

Yesterday, TR Technology unveiled half-time figures showing that net asset backing at the trust rose by 16.8 per cent to 100.3p a share in the six months to end-September. By end-October, however, the figure had dropped back sharply to 73.8p.

Managers say that around 47 per cent of the trust's investments were in the States ahead of the crash, and there have subsequently been problems over the illiquidity of stocks, especially amongst the smaller companies.

However, the broad strategy is to repatriate money from its "large company" US investments and "look for value" in the UK. The US proportion of the portfolio should drop to around 40 per cent eventually - of which perhaps 10 per cent might be unquoted.

The interim dividend is being increased from 0.25p to 0.3p, as part of the planned reduction in disparity between interim and final payouts. Revenue before tax slipped slightly in the six months to £3.34m (£3.43m).

GRANVILLE

SPONSORED SECURITIES

High	Low	Company	Price	Change	Gross div.(p)	Yield %	P/E
206	153	Ass. Brit. Ind. Ordinary	200	0	8.9	4.5	7.5
204	145	Ass. Brit. Ind. CULS	200	0	10.0	5.0	—
41	32	Armitage & Rhodes	32	0	4.2	13.1	4.5
142	60	BBB Design Group (USM)	60	0	2.1	3.4	9.6
188	108	Bardon Group	162	0	2.7	1.6	27.7
186	98	Bray Technologies	164	0	4.7	2.9	13.1
281	130	CCL Group Ordinary	265	0	11.5	4.3	6.8
147	97	CCL Group 11% Conv. Pref.	135	0	15.7	11.6	—
171	136	Carborundum Ordinary	150xd	-5	5.4	3.6	13.0
104	91	Carborundum 7.5% Pref.	104	-2	10.7	10.3	—
180	87	George Blair	150	-4	3.7	2.5	3.9
143	119	Isis Group	90	-2	—	—	—
102	99	Jackson Group	98xd	0	3.4	3.5	10.8
780	320	Multihouse NV (AmstSE)	320	0	—	—	13.7
70	35	Record Holdings (SE)	70	0	0.1	—	14.1
114	85	Record Hldgs. 10pcPf.(SE)	114	0	14.1	12.4	—
51	29	Robert Jenkins	59	0	—	—	3.4
124	42	Scruttons	124xd	0	5.5	4.4	4.9
224	141	Torday & Carlisle	212	0	6.4	3.0	10.3
70	32	Trevian Holdings	70xd	0	0.8	1.1	6.4
151	56	Unilock Holdings (SE)	56	+1	2.8	5.0	10.5
364	115	Walter Alexander (SE)	365	0	6.9	3.6	12.2
201	190	W. S. Yeates	200	0	17.4	8.7	20.0
175	96	West Yorks. Ind. Hosp. (USM)	132	-3	5.5	4.2	14.0

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The Stock Exchange. Other securities listed above are dealt in subject to the rules of FIMBRA.

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United Spring finally merges with Ratcliffe

BY MIKE SMITH

TWO months of on-off merger talks ended successfully yesterday when **United Spring and Steel** made an £11.2m agreed bid for **Ratcliffe Industries** to create one of Britain's largest spring manufacturers.

United Industries, as the enlarged group will be called, intends to use the merger to bring about further rationalisation in an industry which has suffered from overcapacity in recent years. It was unable to say yesterday whether any redundancies would be involved among the two companies' 1,000 workforce.

Yesterday's deal was second time lucky for the two groups. They first agreed a merger on October 16 but Black Monday intervened before they had time to announce a plan by which United would have offered £23m for Ratcliffe. In the subsequent shares slide, Ratcliffe suffered more than United and talks were suspended.

Mr John Cowen, executive chairman of Ratcliffe who will take on the same role at United Industries, said that the spring industry was now profitable after the problems of the last few years.

However, there were still further rationalisation opportunities and this was the quantum leap needed. Further acquisitions are planned.

One consequence of the merger will be the closure of Ratcliffe's Rochdale plant.

Mr Cowen said another advantage of the merger was that United's Dutch factories would be able to help satisfy five-year contracts which Ratcliffe had to produce springs on the continent for Automotive Products.

Springs and pressings will contribute about half of the enlarged group's turnover with rest coming from food processing machinery, cutting tools and small parts storage.

United Spring estimates that its profits before tax for the year ended last September were at least £1.6m, against £1.4m in 1986, and earnings per share were 6p. A final dividend of 1.8p is forecast.

Ratcliffe expects to turn round last year's losses of more than £80,000 to be turned into pre-tax profits of at least £1m in the year to next March. Earnings of not less than 10.5p are forecast. In addition it says the Marwin cutting toll company acquired in August is performing above expectations.

The merger is to be achieved through United Spring offering seven of its shares for every four in Ratcliffe. At yesterday's United closing price of 79p, up 1p, each Ratcliffe share was valued at 138p, against Friday's close of 133p.

United Spring, which is capitalised at about £13.95m, would have to issue 14.21m shares, representing about 45 per cent of the enlarged group, if the offer is fully accepted.

BBA, the motor components group which holds stakes in both companies and promoted talks between them, has already assented its 24 per cent of Ratcliffe to the deal. Directors, who hold another 9 per cent, have also given irrevocable undertakings to accept.

Following completion, all members of the Ratcliffe board will become directors of United Industries. A new group managing director is being sought to work with Mr Cowen, who was previously Ratcliffe chief executive as well as chairman.

Mr Brian Fenwick-Smith is to step down as United Spring chairman.

WCRS to take stake in Finlan

BY NIKKI TAIT

WCRS, the fast-growing advertising agency and communications group, is to take a stake of just over 5 per cent in Finlan - whose interests range from paper and building materials distribution to property development - in return for the disposal of certain property interests in central London to Finlan.

The property interests involved are a site in Covent Garden's Long Acre (on which the two companies already have a joint venture deal), a site at the nearby Comyn Ching Triangle, and Ixworth House in Kensington.

The three properties will go to form a new wholly-owned subsidiary within Finlan, to be called Midtown. Midtown will take on the services of the existing development team, and WCRS will receive 1.1m new ordinary shares in Finlan plus £600,000 of convertible preference shares in return. The preference shares are covertible on a one-for-one basis depending on the pre-tax profits made by Midtown over the five years to 1992. For maximum conversion, Midtown will need to make a cumulative £6m before tax. With Finlan shares up 4p at 92p yesterday, the 5.8 per cent stake is worth £1m. The properties are currently in WCRS's books at £1.8m.

Spandex boosts profit by 70%

Spandex, Bristol-based sign-making equipment distributor, reported interim pre-tax profits up by 70 per cent. Mr Charles Dobson, chairman and managing director, said the scene was set for further growth.

On turnover up by 79 per cent from £5.28m to £9.66m in the six months to the end of July 1987 profits rose to £1.26m against £740,000. The comparative figures have been adjusted to include Ultramark Adhesive Products on a merger accounting basis.

Earnings per 10p share for this USM-quoted company came out at 8p (5.1p). An interim dividend of 1p is being paid, absorbing £95,000. The tax charge was £495,000 (£305,000).

Mr Dobson said the company had continued to expand its range of products while increasing market penetration of existing products. Exports were being enhanced by the improvment of its overseas distribution.

Ultramark, which was acqyuired in June this year, was proving a most beneficial acquisition with performance ahead of target, he added.

A breakdown of the turnover figure showed that computers accounted for £4.62m (£2.38m); materials £2.66m (£1.13m); sign systems £700,000 (£506,000) and Ultramark £1.67m (£1.37m).

Clyde Blowers down

Clyde Blowers, manufacturer of soot blowing equipment and valves and controls for land and marine boilers, reported reduced taxable profits in the year to August.

On turnover up from £3.33m to £3.72m, and investment income of £192,537 (£161,279), the pre-tax result came out 14 per cent lower at £203,334.

A final dividend of 6.32p is proposed.

Cadbury seeking MPs' support against predator

BY NIKKI TAIT

Cadbury-Schweppes, the confectionery and soft drinks company where US-based General Cinema raised its stake to 18.2 per cent via a stock market raid last week, has written to members of parliament urging Government concern about "businesses put into play for short-term speculative reasons."

In a letter to some 30 MPs whose constituencies take in Cadbury interests, chairman Sir Adrian Cadbury says that he believes "the Government should be concerned about the serious consequences of such rapid build-ups of substantial interests which fall below the percentage threshold of merger control regulations."

"I would ask you to impress upon the Government the urgent need to express this concern publicly and to introduce appropriate changes in future legislation on mergers policy", he urges.

Sir Adrian points out the absence of any mechanism for Government "to review whether action such as has been taken by General Cinema is in the public interest before a potential predator has built up a stake large enough to influence the actions which the board may take or wish to take."

Contrasting UK regulations with those applied in the US, he says the General Cinema interest "together with the state of capital markets and the regulatory environment - will make it more difficult for Cadbury to take decisions which are in the best long-term interests of the business."

Yesterday, the UK group added that it has still not had any direct contact with General Cinema - nor received any request for boardroom representation.

General Cinema, a diversified US theatre chain and soft drinks bottler, took an initial 8.5 per cent interest in Cadbury in January and said that it would not make an offer for the company for at least a year unless there was some material change in the circumstances.

The US company commented after last Tuesday's raid that the shares were being bought for "investment purposes.""

SHARE STAKES

The following changes in share stakes were reported during the past week:

Newman Industries - Mr John C.Marley, director, bought 20,000 ordinary at 36p on November 6.

Davidson Pearce Group - Mr Daniel Houghton Hodson bought 30,000 shares at 126p on November 5 and 70,000 at 113p on November 6.

Automated Security (Holdings) - Mr Kenneth Macfarlane Coupar, director, bought 10,000 ordinary at 210p and holds 83,128 (0.1186 per cent).

International Business Communications (Holdings) - At 90p on November 6 Mr S.R.Stein, director, cut holding by 600,000 to 1.27m, Mr N.G.Coles, director, cut holding by 200,000 to 1.01m, Mr F.H.W.Komhoff, director, sold 200,000 and holds 657,000 and Mr J.W.J.Geevers, director, holds 1.8m after selling 200,000.

Egerton Trust - Summerhill Stud bought 50,000 ordinary at 175p on October 28.

A & M Group - On November 5 Mr Grahame Farquah, director, bought 20,000 shares at an average price of 13p.

Raine Industries - Mr A.N.R Rudd, non-executive chairman, bought 100,000 shares at 70p and holds 1.89m shares and Mr J.H.Bancroft, director, bought 20,000 at same price.

Grand Central Investment Holdings - On November 10 Mr I Nahappan, director, bought 100,000 shares and Mr C.J.Quelch, director, bought 10,000.

Hawley Group - Mr M.A Ashcroft, director, has acquired an interest in 348,000 common shares.

Falcon Industries - Mr M.W.Hindmarch, director, holds 4.1m shares after buying 25,000 ordinary at 58p.

ISA International - Mr D.Heap, director, holds 1.85m (9.49 per cent) following the buying of shares between October 15 and November 10.

Blue Arrow - Mr M. Fromstein acquired 100,000 shares at 75p.

The Property Trust - Mr B.S.Halabi, director, bought 5m ordinary (0.65 per cent).

Ketson - Mr Walter Dickson, chairman, increased beneficial interest in ordinary by 25,000 to 125,000 (1.3 per cent).

Kalamazoo - Mrs D.M.B.Dibben, wife of director Mr K.F.Dibben, bought 10,000 shares at 28p on November 10.

Regalian Properties - On November 11 Mr L.S.Walton, director, bought 1,000 shares, Mr J.L.Goldstone, director, 20,000 and Mr J.A.Derby, director, 3,000.

An advertisement appeared in the Financial Times on 9 November promoting the I.B.M '87' Exhibition at the Business Design Centre, London. This exhibition closed on Friday 6 November. The Financial Times regrets any inconvenience caused to I.B.M. or to its readers

UK COMPANY NEWS

Wardle Storeys surges to £12.7m

PRE-TAX profits of Wardle Storeys more than doubled from £5.61m to £12.74m in the year to August 31 on turnover which increased from £49.94m to £77.25m.

With earnings up from 23.6p to 35.2p per 10p ordinary, shareholders get a 50 per cent boost in the total dividend with a proposed final of 6.5p making 9p against 6p.

Both of Wardle Storey's divisions had a successful year. The technical products division - the original core business - increased operating profits by 75 per cent while operating profits of the safety and survival equipment division - the former RFD business acquired last year - more than doubled on a strictly comparable basis.

There was a sharp increase in interest receivable, up from £388,000 to £1.56m and the second half included a contribution from the coated fabrics business of Weston Hyde Products; 1988 will see increasing benefits from this acquisition.

Reorganisation and relocation of the RFD inflatables business in Dunmurry has been completed and the company's parachutes operation is operating on a higher level of activity than originally envisaged.

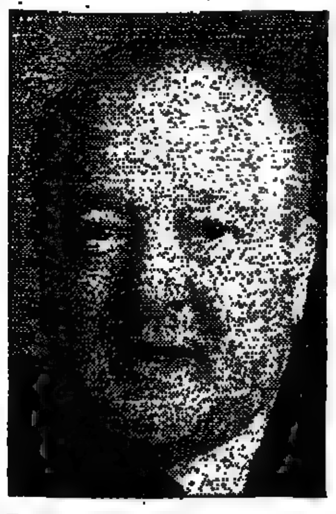
Disposal of surplus assets referred to in last year's report has taken place. Since the year end the second progress payment has been made on the Godalming site and only the final payment remains to be made. This will be received in May 1988.

The board said that emphasis would continue to be placed on good management, tight financial control and strong attention to cash generation. The company already has a very strong cash position, is involved in a wide spread of industrial sectors, is in specialist market segments, has a relatively low exposure to the US market and has strong margins.

Profit from continuing operations last year amounted to £10.36m (£4.66m) while profit on businesses sold was £830,000 (£558,000).

Operating profit emerged at £11.18m (£5.22m), tax took £4.22m (£1.53m) and there were no minorities this time (£3,000 credit).

There was an extraordinary debit of £1.6m which related mainly to the unsuccessful offer for Chamberlain Phipps last April/May.



Brian Taylor, managing director of Wardle Storeys.

comment

Perhaps Chamberlain Phipps shareholders did Brian Taylor a favour by rejecting Wardle's bid. Although he ended up paying £1.4m in abortive bid costs, he saved paying £62m for a business now capitalised at around £10m less and he has £34m in cash, with more piling up, with which to pick and choose bargains in a bear market. Wardle certainly seems to have its existing businesses well under control, with the 75 per cent increase in technical products particularly impressive; although pvc prices rose 25 per cent, the company was able to pass them on to customers. Mr Taylor is convinced he can squeeze more margin improvements out of technical products and there are certainly cost benefits yet to be realised in safety and survival equipment. All that leaves the group on target for pre-tax profits of £15.5m this year. After yesterday's price jump to 495p, the shares are on a prospective p/e of 12.

Share Drug up by 24%

Share Drug Stores, the USM-quoted drug store chain, lifted pre-tax profits by 24 per cent from £1.79m to £2.21m in the year ending August 29 1987.

Turnover rose 41 per cent from £35.44m to £50.14m. There is a recommended final dividend of 1.9p (1.5p) making 3p (2.4p) for the year.

After tax of £715,000 (£590,000), earnings per 10p share increased to 14.3p (12.4p).

Mr Alan Prince, chairman, said that trading so far this year has been encouraging and the company expects excellent results next year.

Of the 40 stores opened during the last financial year, 16 were acquired from the Billington Group in June and although these did not contribute to the trading year just ended, they were expected to generate profits this year.

Mr Prince said that the number of stores opened had increased those trading at the end of the year to 135, taking net selling area from 220,000 sq ft to 315,000 sq ft.

During the year the company had expanded £4.4m in expansion and development.

Recent expansion at the Nursling warehouse meant that there was a total capacity to serve at least 200 stores.

£250,000 payout to ex-Trimoco chief

BY CLAY HARRIS

Trimoco, the Luton-based motor dealer, has paid a golden handshake of £250,000 to Mr James Longcroft, who resigned as chairman earlier this year. Mr Longcroft's three-year service contract provided for annual payments of £130,000.

The exceptional payment limited Trimoco's interim pre-tax profits to £2m (£51,000). Turnover in the six months to September 30 increased to £105.6m, a 10 per cent rise over the £96.2m reported in the comparable period.

Although the first half included August and September, the traditional peak of new car registrations, Mr Roger Smith, chairman, said that business was continuing strong in the second half.

Trimoco combines Ford franchises in Bedfordshire, Essex and Yorkshire and General Motors dealerships in East Anglia with related leasing, contract hire and property operations. The motor activities emerged from the former Combined Technologies Corporation, a high-technology spinoff of Tricentrol, the independent oil company headed by Mr Longcroft.

A net extraordinary credit of £140,000 reflected the release of a £200,000 provision relating to a subsidiary sold in 1985 less the £60,000 cost of capital restructure and change of tax domicile.

An interim dividend of 0.4p (nil), on earnings per share of 1.7p (loss per share of 0.5p), follows a special interim of 0.3p paid in July.

The company last week bought sufficient dollars at $1.77 to cover its $2.67m exposure to Sperry Corporation's exercise of "put" options in Information Storage/Retrieval Systems, a company in which Trimoco still holds a 19 per cent stake.

Trimoco last year took a £1.6m provision to cover the exposure, which it is contesting in the US courts. The sterling-dollar rate has subsequently moved in Trimoco's favour, and the company expects the margin to cover any interest costs which may be part of a settlement.

Further US expansion for Trinity

Trinity International Holdings, the former Liverpool Daily Post and Echo, yesterday announced that contracts had been exchanged for the acquisition of Buckeye Publishing Company of the US.

Buckeye is based in Lisbon, Ohio, some 80 miles from Trinity's existing Gateway Press publishing and printing operation centred in Pittsburgh, Pennsylvania.

The consideration, payable in cash, amounts to $3m (£1.72m), plus another $1m for land and buildings not owned by Buckeye and $1.82m for non-competition and consultancy agreements negotiated with previous shareholders: $1.5m of the total sum is payable on completion, with the remainder payable over five to 10 years at a fixed interest rate of 7.5 per cent.

As at October, Buckeye had net assets of $1.3m and achieved adjusted pre-tax profits of $581,000 for the year to December 1986.

Woodchester rises sharply

Woodchester Investments, the Dublin-based finance and leasing company whose ultimate parent is British and Commonwealth Holdings, increased its pre-tax profits more than four-fold in the six months ending September 30 1987.

The profit, which included the company's share of the earnings of Bowmaker Bank and of two new associate companies, Moorgate Mercantile and Lookers for an appropriate part of the period, amounted to IR£4.88m (£4.4m) compared with IR£1.01m.

An increased interim dividend of 0.6p was declared compared with 0.5p for the corresponding period last year.

The results do not include any effects of the substantial stream of new business available through the company's relationship with Lookers.

Subsequent to September 30, the company reached agreement to acquire a controlling interest in its former associate company, SIL and Shannon International Leasing and Financial Services. In addition SIL, together with British and Commonwealth, has established a new joint venture financial services company to be based in the International Financial Services Centre in the Customs House Dock development.

Gross rentals in the half year amounted to £33.57m (£6.85m); tax took £725,283 (£119,921) and earnings per 20p share were 4.4p (1.94p adjusted).

Thomas Robinson

Thomas Robinson has acquired the **Dane Motor Companies** in both Chester and Wrexham for a total of £3m cash. They are motor dealers with the franchise for Volkswagen Audi and Golf cars. In the year to June 30 1987, the Dane profit was £619,000 out of a total turnover of £7.8m, compared with £375,000 out of £5.4m in the previous year. Group net assets at June 30 were £443,000.

BET expansion

BET, the international services company, has acquired Bob Tait Plant Hire (Aberdeen) for £945,000, a consideration comprising £756,000 in cash and the remainder by the issue of 87,500 new shares valued at £189,000.

Bob Tait is one of Aberdeen's leading small plant and tool hire companies offering a range of equipment for hire or sale to the onshore, offshore and domestic markets.

BET said that the acquisition was another step in extending its national coverage in this service sector.

HONORBILT GROUP has acquired Robert Van Gils Designs for £10,000 which will be satisfied by the issue of 36,363 new Honorbilt ordinary shares. Further consideration will be paid based on Van Gils Designs profits calculated over a five year period. This consideration will not exceed £1.2m.

Connells in further expansion

Connells Estate Agents of Luton has acquired Hallem Bracket Commercial Property Surveyors based in Nottingham and Derby for an initial consideration of £893,000 in shares and cash.

A further £202,605 in Connells shares will be payable assuming Hallam's net profits for the period to December 1988 exceed £253,125. In the year to end-October 1986, Hallam made pre-tax profits of £186,882.

The acquisition extends the market coverage further north up the M1 corridor of Connells Commercial Division.

Volex up 36% to £2.82m

THE FURTHER improvement in trading foreshadowed at the time of the record annual profits in June has materialised for Volex, the Manchester-based electrical group, and pre-tax profits have moved up by 36 per cent to £2.82m in the half-year to end-September.

The outcome resulted from turnover up from £31.65m to £37.31m. After a debit of £25,000 relating to the group's share of losses incurred by related companies, interest charges of £361,000 (£367,000), and tax of £507,000 (£374,000), earnings per shares rose to 15.2p against 11.2p last time.

The interim dividend is increased to 4p (3.3p).

The directors expected the trend to continue in the second half, and stated that capital expenditure would be increased to ensure future growth.

They added that the spread of group activities which includes automobile wiring systems, moulded plugs and connectors, specialist communication cables and electrical wiring accessories would give opportunities for sound growth.

CHESTERFIELD PROPERTIES is seeking approval of preference shareholders for the purchase by the company of up to 1m of its own ordinary shares at prices between 25p and 650p per share. Approval has already been given by ordinary shareholders at the last AGM.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- CML Microsystems, C.E. Heath, Infrared, Meyer International, TR North America Investment Trust, Whitbread, Whitbread Investment, Young & Co's Brewery.

Finals- Hardanger Properties, London Entertainments, Piccadilly Radio, Ranks Hovis McDougall, Tomkinsons.

FUTURE DATES

Interims-

Chancery Securities	Nov 25
Hille Ergonom	Nov 26
Just Rubber	Nov 19
Magnet	Nov 25
Norcros	Dec 1
Powerscreen Intl	Nov 24
Stonehouse	Nov 18
Tex Holdings	Dec 9
Toothill	Dec 3
Finals-	
Carroll Industries	Nov 23
English China Clays	Dec 16
Lee (Arthur)	Dec 14

COMMODITIES AND AGRICULTURE

Tropical Timber pact faces conservation call

BY DENNIS THOMPSON

THE WORLD Wildlife Fund is calling on the world's tropical timber-producing and consuming nations to establish a code of conduct to control the harvesting of endangered species of tropical trees.

The call is being made as the council of the International Tropical Timber Agreement (ITTA) meets this week at the newly-formed body's headquarters in Yokohama, Japan. The meeting, under the chairmanship of Mr Freezailah bin Che Yeom, the ITTA's executive director, began yesterday and ends Friday.

The WWF wants the ITTA, a newcomer among world commodity agreements (it was set up in early 1985 under the auspices of the UN Committee on Trade and Development), to press member nations to identify engangered tree species, to demarcate threatened forest areas and to establish tariffs inhibiting export of tropical timber logs in favour of local job-creating projects in the timber-processing industry.

Mr Peter Kramer, the WWF's conservation director, told the meeting that 1,200 tree species are endangered and that 160 species of wildlife are dependent on each type of tropical tree. Japan was singled out for criticism because of the heavy demands it makes on such supplier nations as Indonesia for quality timber used for such low-grade purposes as chipboard production.

Japan is the world's largest importer of tropical timber, with imports valued at more than $2.3bn a year, with the US and the European Community close behind.

A key agenda item at the conference is the need to raise administrative contributions from 41 member governments to support work of the timber organisation. The ITTA hopes the Common Fund will allocate $20m-$30m to preservation of tropical timber once Unctad's common fund agreement is ratified by the Soviet Union. Japan has allocated $2m, with Switzerland and the Netherlands contributing $1m and $600,000 respectively. Among non-Governmental organisations, the WWF has contributed $10,000. The US has not yet paid its administration contribution. Timber companies, whose trade is worth between $5bn and $8bn, so far have made no contribution, officials point out.

Zimbabwe hopes for tobacco boost

By Tony Hawkins in Harare

ZIMBABWE'S badly bruised tobacco industry is hoping for a strong rebound in 1988 following a devastating 20 per cent fall in the value of production this year.

A year ago, the industry embarked on an ambitious expansion scheme designed to raise output to around 135m kilograms from 114m in 1985-86. Tobacco thrives in dry conditions and growers came close to meeting the crop target, producing an estimated 132m kgs. But so severe was the drought that leaf quality was poor, resulting in sharply lower prices on the Harare auction floors.

As a result the average leaf price plumetted 30 per cent from 313 Zimbabwe cents (186 US cents) to 218 cents a kg. Despite this, only 50 or 60 growers are expected to be forced out of production, and industry leaders are confident that it will be possible to maintain output at 120m kgs in 1988.

But they warn that many growers are carrying large losses and have been temporarily rescued by banks. It is estimated that 60 per cent of growers averaged less than production costs and will therefore need substantially higher prices in 1988 to recoup their losses.

Merchants argue that given reasonable rains and a return to quality leaf, prices should average at least 280 cents a kg in 1988, but even this will fall short of 1986 prices.

LME WAREHOUSE STOCKS (Change during week ended last Friday) tonnes

Aluminium standard	-7,925	to	49,775
Aluminium high grade	+650	to	47,500
Copper	+4,600	to	64,300
Lead	+2,075	to	18,625
Nickel	-930	to	2,220
Zinc	-360	to	34,300
Tin	-20	to	19,910
Silver (oz).	-99,000	to	19,974,000

Redeploying redundant farmland

FARMER'S VIEWPOINT

By John Cherrington

THE BRITISH Government's belief that there should be a revival of rurally-based industry to compensate for reducing farm production is, I am sure, mistaken.

There are two separate issues. Firstly, is it sensible to try and locate in the countryside industries which are much better suited to urban or semi-urban areas and which have no possible link with farming? Secondly, would it not be better to recognise that the countryside has been constantly evolving to meet changing economic and social demands?

On my own Hampshire farm the boundaries of Iron Age fields remain clearly visible, and in some of the woods there are still ditches marking the locations of farmsteads abandoned centuries ago. I have no documentary evidence concerning the history of my own land, but I did recently come across an account covering several centuries in the development of a Devon estate.

The picture appears to have changed several times - starting with a treeless arable field system, then to wooded small fields and then back to arable again. The big double hedges for which Devon was noted were a late developement and mainly planted to provide timber for building and repairs. I had a Devon farm myself some years ago and removed a number of hedges to make the fields more convenient for arable farming again.

On my present farm there are a number of copses which were planted in the early 19th Century with hazel oak and beech. The hazel was used for sheep hurdles, thatching wood and bakery fuel, the bigger trees for building.

The point is that all these changes were sparked off by a positive demand which had to be satisfied. Even 50 years ago there was a good sale for hurdles, a great deal of thatch and most country bakeries (there was one in every village) were fired by hazel faggots. At that time we were just emerging from the horse age and every village had a blacksmith and wheelwright. Horse-drawn transport was too slow for day to day affairs to be conducted between the country and local towns so rurally based activities were viable and village shops, builders and undertakers performed their neccessary tasks.

I am making these points because it seems to me that the Government's latest ideas, if I follow them correctly, offer no real reason for establishing any sort of industry in the countryside which cannot be much more efficiently conducted in an urban environment. There is no point in trying to establish an enterprise in a village when most of the villages are becoming dormitories for the local towns or providing weekend homes for the better off.

Before the Second World War the rural population was made up largely of rural workers. But most have been forced to leave - in search of work and, much more importantly, housing. The cheap houses which used to abound have been bought up and reconditioned to sell at many times the figure which could be afforded by younger working people. What would be the point of starting a rural enterprise if all the workers had to drive out of town to get to the job.

Nor does it seem to be realised just how restrictive the planning rules are becoming. These present formidable obstacles to developement, and it is not just the planners who are to blame. It is a peculiarity of the new British country dweller that once established in the village of his choice he does not wish to be joined by any of his fellows even for residential purposes. So plans for new houses have to be fought through to appeal, however suitable the average outsider would think them.

So restrictive is the planning system that there is a scarcity of housing sites which pushes their price up to more than half the value of the house to be built on the plot. When the Government first announced this last February I told a friend who was fortunate enough to own some land with planning consent that I proposed to put in for planning consent on some odd pieces of land I owned and thought they should qualify to compensate me for the fall in my farming income. He was horrified. There were only a few hundred houses allowed for in the next 10 years he told me and if I put in for and was successful for a score or so, as I am intending, it could break the market.

There is plenty of room for some competition here when you consider that agricultural land is selling for about £1,500 an acre but with the magic of planning consent is worth about 20 times that.

When it comes to installing some form of industry not only is the battle with the planners but with the new country people as well. The last thing they want to see is any sort of commercial development in their village. There was even a case where a man making spinets in his garage, surely one of the least offensive of occupations, was told he should move to an industrial estate.

I would be the first to admit that, at the end of the last war, I supported planning with great enthusiasm as a counter to the ribbon development and other ills which the countryside had suffered in the inter-war years. But it must be said that the system then provided for a lot of cheap accomodation in places where people wanted it. There is something to be said for the principle that in a free country there is no reason why a man should not be able to erect a house wherever he wishes on his own land.

Even if it were possible to eliminate, by some miracle, both the planners and the vested interests which benefit from them I doubt very much that an alternative form of income could be provided to compensate for the elimination from production of some 2m acres of the more fertile land in the country.

There is a precedent for this. During the inter-war period, when unplanned development was the order of the day, only a tiny proportion of the land area was in fact built upon. Rurally-based industries were shrinking fast and huge areas of land were lying derelict, waiting for new farming demand to emerge.

New York exchange approves framework plan for merger

BY DEBORAH HARGREAVES IN CHICAGO

THE NEW York Commodity Exchange's Board has paved the way for a merger with the New York Mercantile Exchange by approving the framework outlined by an Arthur D. Little management study.

The study, which advocates an administrative tie-up as a first step towards a full merger, will be put to the Nymex Board by the end of the month. The two major New York exchanges have been discussing a merger for most of the year in an effort to save money and space in their overcrowded World Trade Center headquarters. Combining administration and non-operative functions such as compliance and marketing is projected to lead to cost savings of around $3m a year.

However, the two exchanges' clearing and back office systems would remain separate, as would trading in existing contracts for the first few years. New contracts and products developed jointly in future would be open to members of both exchanges.

The two exchanges, which have many common members, handle between them an average of some 185,000 contracts a day or around 46m contracts a year.

Since a merger last came up for discussion between the two - in the late 1970s - Nymex's energy futures and options contracts have flourished, while Comex's metals business has lost some of its shine. Last time, Comex members vetoed a partnership in order to keep their busier markets from Nymex members. This time the Nymex members are more territorial.

But Mr Bill Bradt, Nymex chairman stresses: "We are looking at it from a dollars and cents issue and not from any old animosity."

Members are expected to vote on the merger early next year in what could herald a closer relationship between all five New York futures exchanges. The Coffee, Sugar and Cocoa, New York Cotton Exchange and New York Futures Exchange are all looking at the study with a view to possibly joining the big two.

Bauxite price caution urged

BY CANUTE JAMES IN KINGSTON

The International Bauxite Association has advised its ten members to sell bauxite and alumina next year at prices similar to those which they asked this year.

The recommendation was made by the IBA's ministerial council at its annual meeting at the association's headquarters here, which was attended by representatives of the ten members - Australia, Guinea, Jamaica, Indonesia, India, Yugoslavia, Ghana, Sierra Leone, Suriname and Guyana.

The producers' organisation recommended to the members that for next year they sell base-grade metallurgical bauxite between 2.5 per cent and 3.5 per cent of the composite reference price per tonne of primary aluminium ingot.

It also suggested that prices next year for alumina (aluminium oxide) should be between 14 per cent and 18 per cent of the composite reference price per tonne of primary aluminium ingot.

The IBA pointed out that these are recommended minimum cost, insurance and freight (cif) prices. They are the same as those which were recommended for bauxite and alumina sales made this year.

"These prices should be negotiated on the basis of the areas to which these products are to be delivered and the means of transporation," the association said after the meeting.

Officials in the IBA's secretariat explained that the composite reference price is determined by a formula which takes account of short term and long term prices of aluminium in major markets such as north america, western europe and asia.

They also stressed that the recommended prices were meant as a guide for the IBA's members, and were not binding, as the IBA was not a cartel and could not set prices.

The association's members account for about 73 per cent of the world's output of bauxite ore, and 43 per cent of alumina production.

The IBA said after the meeting here that, in light of a tightening market this year and falling stock levels, "the outlook for the bauxite/alumina/aluminium industry for the remainder of 1987, and possibly 1988, shows significant signs of improvement."

The statement also indicated some concern within the association about recent developments in international stock markets, and "the possible effects of these on the performance of the international economy and individual aluminium companies."

Mr Henry O. Bovell of Guyana, who has been secretary general of the IBA since 1984, is to be replaced in January by Mr Ibrahima Bah of Guinea, who will serve a three-year term.

Dry weather hits Kenyan maize crop

THE KENYAN maize harvest will fall by 30 per cent to 2m tonnes in 1987 from an annual average of 2.7m because of below-average rainfall in the maize growing areas, according to Mr Elijah Mwangale, the Agriculture Minister, reports Reuter from Nairobi. But the country has sufficient food reserves, he added.

"The country expects a poor harvest of the staple maize from these areas ... The long rains which began in April ended in June instead of August," Mr Mwangale explained.

Copper to continue strong

CHILE'S MINES Minister, Mr Samuel Lira is predicting continued strong international copper prices, but says Chile will not alter its production plans until prices stabilise, Reuter reports from Santiago.

"We expect that between now and next June the price will remain above 90 cents per lb," he said in an interview. The fact that copper for future delivery was being forecast at above the 90 cents level was an indication of market expectations.

Chile would hold to its output plan despite the surge which saw the price rise to more than $1.20 per lb last week, nearly double the level at the beginning of the year. Chile's output will rise by around 60,000 tonnes from the 1.4m tonnes expected this year.

Israeli flower growers worried about EC access

BY JUDITH MALTZ IN JERUSALEM

Israel's flower growers are increasingly concerned that delays in ratifying their draft agricultural access agreement with the European Community will severely harm their competitivity of their exports to that crucial market.

The agreement, reached in principle in March 1986, calls for the progressive abolition of tariff barriers for Spanish produce to be matched for Israel. Duties on Spanish flowers have already been reduced in recent weeks from 17 percent, the rate currently paid by Israel, to 12.5 percent. They are to be totally abolished by January 1988.

Mr Hillel Mintz, chairman of the state run Flower Marketing Board, expressed the hope that the Israeli government and the EC would soon finalise the remaining details of the agreement. "Our farmers are very worried about not having this agreement put into practice" he said, "since we now find our position inferior to that of the Spanish."

Israeli cut flowers, which account for a 45 percent share of the EC winter flower market, have over the past few years become a major source of agricultural export revenues for the country. Last year, a record 900 million cut flowers were sold overseas, earning Israeli farmers some US $115 million. More follows, she has to move her car.1243 end end

Add to Flour growths

Mr. Mintz predicted only marginal increases in these figures in the current season but he said that as a result of continued delays in applying the agreement with the EC "our competitivity will suffer and that will affect future production."

He attributed the holdup in its ratification to differences over the controversal issue of direct agricultural exports, from the Israeli occupied territories, to the EC. Israel has persistently refused to allow Palestinians farmers to use its ports, insisting that they ship their produce either through the state run marketing organisations, or from the ports of neighbouring Arab countries.

During a visit here last month, Mr Claude Cheysson the European Community's external relations Commissioner, tried to gain concessions out of the Israelies on the subject by offering to apply the agricultural access agreement before its formal ratification so that farmers would not be as hard hit in the marketing season just started.

"We hope the good atmosphere which prevailed between Mr. Cheysson and the Israeli authorities will hasten this process" remarked the Flour Board Chief."

Soyabean meal

CLOSING PRICES from the London soyabean meal futures market were not available yesterday because of a computer fault. The prices shown in the table below are as at 12 noon.

WORLD COMMODITIES PRICES

LONDON MARKETS

THE ZINC market was a leading feature on the London metal exchange again yesterday when the cash position added £23 to Friday's £20 advance to reach £522 a tonne. Tightness of physical supplies available for nearby delivery remained the dominant influence. News of a $50 rise in European producer prices was also bullish, dealers said, although this had been predicted last week. In the face of such upward pressure the market shrugged off the bearish implications of a decision by workers at Spain's Asturiana to call off a threatened strike. As prices moved higher investment fund buying and short-covering was triggered, but trade selling and profit-taking emerged near the close. The firmness of the dollar against sterling provided a firm background in all the LME markets, notably copper, which saw cash Grade A metal gain £19.50 to £1,465 a tonne.

FREIGHT FUTURES £/index point

	Close	Previous	High/Low
Jan	1176.0	1202.0	1185.0 1160.0
Apr	1217.0	1230.0	1215.0 1180.0
Jly	1080.0	1103.0	1092.0 1080.0
BFI	1155.5	1169.5	1155.5

Turnover 356 (290)

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	461¾-462¼	265-265½
Opening	460½-461	263¾-264¼
Morning fix	461¾	264¾
Afternoon fix	462	265
Day's high	462¼-462¾	
Day's low	460-460½	
US Eagle	475-480	272½-276

US MARKETS

In quiet trading, gold and silver eased on a combination of trade and local selling, reports Drexel Burnham Lambert. Short-covering late in the day pared losses. Platinum also eased on commission house selling in line with gold, but derived some support from traders buying the market against gold. Copper eased, especially in the December contract, as traders liquidated positions. Trade selling eased crude oil in the face of commission house buying. Activity was noted in the December/January switch which narrowed slightly on December selling. The product followed the crude oil on light fund selling, but the trade was a noted buyer. Coffee rallied on speculative short-covering and price-fix buying despite long-liquidation in advance of the first notice day on the December contract. Cocoa fell on speculative long-liquidation, but industry interest was noted at the lows. Sugar was quiet, easing on commission house selling. Cotton eased on a combination of trade selling and commission house long-liquidation. The meats closed mixed in light volume on position-squaring prior to yesterday's crop report. Profit-taking featured in soymeal.

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low
Dec	126.95	125.59	127.25 124.91
Mar	131.19	130.00	131.80 129.40
May	133.00	132.00	133.25 131.37
Jly	134.50	133.50	135.00 133.00
Sep	137.00	135.25	134.75 134.50
Dec	137.50	135.56	0 0
Mar	136.80	136.30	0 0

Chicago

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Dec	17.72	17.72	0 17.65
Jan	17.87	17.86	0 17.85
Mar	18.22	18.21	18.33 18.12
May	18.53	18.54	18.65 18.40
Jly	18.73	18.80	18.83 18.70

New York

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Mr Reagan moves the dollar

President Reagan's remarks were the major factor influencing the dollar yesterday.

Towards the end of a very good day for the US currency in Europe, President Reagan introduced a note of alarm in relation to cuts in the budget deficit.

Referring to negotiations between the White House and Congress on the budget deficit he said "hiking tax rates is the wrong step." He added the administration is "determined to achieve at least a $23bn reduction (in the deficit) this fiscal year."

The problem for the market is that expectations of a significant reduction appear to hinge on Mr Reagan softening his view about higher taxes, and that $23bn is only the level demanded in the Gramm Rudman bill, which reaches its deadline on Friday.

Over the weekend Mr Reagan raised hopes that White House and Congressional negotiators would soon agree on an $80bn budget reduction package over the next two years.

This would include $30bn this year, as opposed to the Gramm Rudman $23bn law, and $50bn next year. In order to reach these levels the market expected President Reagan to agree on some form of adjustment in taxation, but yesterday's remarks were not encouraging.

Hopes that the budget deficit would be cut by $30bn this year encouraged early covering of short dollar positions. Technically the market was already moving in this direction, after the dollar's recent extensive slide.

In reaction to Mr Reagan's later remarks the US currency finished around its lowest levels of the day, but still above Friday's close.

The dollar rose to DM1.7025 from DM1.6880; to FFr5.7575 from FFr5.7250; to SFr1.4015 from SFr1.3875; and to Y136.50 from Y135.90.

On Bank of England figures the dollar's index rose to 97.7 from 97.0.

STERLING-Trading range against the dollar in 1987 is 1.7950 to 1.4710. October average 1.6620. Exchange rate index fell 0.5 to 74.8, compared with 73.6 six months ago.

Sterling declined 1.70 cents against the dollar to $1.7510-1.7520, but closed at its highest level of the day. The pound was unchanged at SFr2.4550, but eased to DM2.9825 from DM2.9850; to FFr10.0850 from FFr10.1250; and to Y239 from Y240.25.

A larger than expected rise of 0.8 p.c. in October UK retail sales had no impact.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.6590. October average 1.8011. Exchange rate index 149.8 against 147.5 six months ago.

The D-Mark lost ground to the dollar in Frankfurt, after a quiet day. The main factor appeared to be the belief that the Reagan administration is no longer looking for a fall in the value of the US curency.

The dollar closed at DM1.7130, against DM1.6915 on Friday. In Frankfurt the West German Bundesbank did not intervene when the dollar was fixed at DM1.7159, compared with DM1.6926 previously.

JAPANESE YEN-Trading range against the dollar in 1987 is 159.45 to 134.20. October average 143.27. Exchange rate index 227.3 against 226.5 six months ago.

The yen weakened against the dollar in Tokyo. The rise of the US currency was partly technical, but also followed President Reagan's comment that agreement can be expected to cut the US budget deficit by $30bn this financial year.

Dealers said the market was relucant to trade actively until an agreement is reached. The dollar closed at Y136.85 in Tokyo, compared with Y136.05 on Friday.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Nov.16	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1678	+1.67	+0.90	±1.5344
Danish Krone	7.85212	7.96412	+1.43	+0.66	±1.6404
German D-Mark	2.05853	2.06661	+0.39	-0.38	±1.0981
French Franc	6.90403	6.98102	+1.12	+0.35	±1.3674
Dutch Guilder	2.31943	2.32729	+0.34	-0.43	±1.5012
Irish Punt	0.768411	0.775598	+0.94	+0.17	±1.6684
Italian Lira	1483.58	1514.08	+2.06	+1.74	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Nov.16	Latest	Previous Close
£ Spot	1.7405-1.7415	1.7695-1.7705
1 month	0.32-0.30pm	0.34-0.32pm
3 months	0.68-0.65pm	0.75-0.68pm
12 months	1.95-1.85pm	2.00-1.85pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

Nov.16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7385-1.7520	1.7510-1.7520	0.33-0.30cpm	2.16	0.69-0.65pm	1.53
Canada	2.2896-2.3030	2.3020-2.3030	0.13-0.02cpm	0.39	0.08dis-0.04pm	-0.03
Netherlands	3.35¾-3.37	3.36¼-3.36¾	1¼-1cpm	3.79	3⅞-3⅝pm	3.87
Belgium	62.31-62.60	62.50-62.60	15-10cpm	2.40	35-25pm	1.92
Denmark	11.49¼-11.52¼	11.49¼-11.50¼	[illegible]	1.17	[illegible]	-1.37

[illegible]

CURRENCY RATES

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

CURRENCY MOVEMENTS

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

OTHER CURRENCIES

[illegible]

EXCHANGE CROSS RATES

[illegible]

FINANCIAL FUTURES

Gilt prices lower

Gilt prices were weaker for much of the morning in the London International Financial Futures Exchange yesterday as a further recovery in equity values reduced the possibility of an early cut in UK clearing bank base rates.

Traders found little room for optimism because trading in most sectors was influenced by talks between the US administration and Congress on efforts to cut the US budget deficit. Comments made by President Reagan suggesting his desire to avoid a rise in personal taxation came as little surprise because he had resisted such a move from the beginning but the comment did little to improve market sentiment.

With traders less than willing to make any long term commitments, trading volume suffered accordingly. Long term gilts for December delivery opened at 121-20 down from 121-25 on Friday and fell to a low of 121-07 before recovering to finish at 121-19.

US Treasury bonds opened at 88-26 for December delivery and slipped to a low of 88-16 before coming back to close at 88-25, down from 89-01 on Friday.

Three-month sterling deposits finished virtually unchanged. Once again trading tended to a little subdued not only because of current talks to cut the US budget deficit but also because this week sees the release of UK money supply and bank lending figures. Neither of these are expected to be encouraging. However there was little incentive to move either way and the December price ended at 91.13 up from 91.06 at the opening and 91.11 on Friday night.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Mar	Puts-Last Dec	Puts-Last Mar
116	5.39	6.42	0.01	1.06
118	3.44	5.15	0.06	1.43
120	1.59	4.01	0.21	2.29
122	0.50	3.01	1.12	3.29
124	0.13	2.12	2.39	4.40
126	0.03	1.33	4.29	5.61
128	0.00	1.03	6.26	7.31
130	0.00	0.28	10.26	10.56

Estimated volume total, Calls 1627 Puts 370
Previous day's open int: Calls 43227 Puts 35147

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Mar	Puts-Last Dec	Puts-Last Mar
82	6.52	6.561	0.00	1.00
84	4.53	5.28	0.01	1.36
86	2.56	4.03	0.05	2.11
88	1.20	2.62	0.32	3.06
90	0.22	2.03	1.34	4.11
92	0.06	1.30	3.18	5.38
94	0.02	1.01	5.14	7.09
96	0.00	-	9.12	-

Estimated volume total, Calls 54 Puts 0
Previous day's open int: Calls 3299 Puts 2269

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Nov	Calls-Last Dec	Puts-Last Nov	Puts-Last Dec
18000	1.67	7.28	10.67	16.28
18250	1.19	6.46	12.69	17.96
18500	0.82	5.71	14.82	19.71
18750	0.56	5.03	17.06	21.53
19000	0.37	4.43	19.37	23.43
19250	0.24	3.88	21.74	25.38
19500	0.15	3.39	24.15	27.39
19750	0.10	2.96	26.60	29.46

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 47 Puts 136

LIFFE £/$ OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LONDON

[illegible]

CHICAGO

[illegible]

SWISS FRANC (IMM)

SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Dec	0.7118	0.7123	0.7097	0.7227
Mar	0.7173	0.7178	0.7150	0.7286
Jun	0.7240	—	0.7220	0.7349
Sep	0.7305	0.7315	0.7305	0.7419

STANDARD & POORS 500 INDEX

$500 times index

	Latest	High	Low	Prev.
Dec	250.20	251.40	249.90	247.60
Mar	—	253.00	251.50	249.00
Jun	253.30	254.20	—	250.80
Sep	253.80	256.70	—	253.40

MONEY MARKETS

London rates rise where changed

Interest rates were slightly firmer at the longer end in London yesterday. A further improvement in equity markets reduced recent pressure on calls for another cut in base rates which helped the shorter end but longer periods reflected concern about the effects of excessive growth in money supply and bank lending both of which are due for release this week.

Three-month interbank money was quoted at 9⅛-8⅞ p.c. from 9-8⅞ p.c. Overnight money opened at 9¼-9 p.c. and rose to 9½-9 p.c. before slipping away to 6 p.c. Late balances were taken at 8 p.c.

UK clearing bank base lending rate 9 per cent from November 5

The Bank of England forecast a shortage of around £700m with factors affecting the market including the repayment of any late assistance and bills maturing in official hands together with a take up of Treasury bills draining £1,010m and Exchequer transactions a nominal £5m. In addition banks brought forward balances £70m below target. These were partly offset by a fall in the note circulation of £375m.

The forecast was revised to a shortage of around £800m and the Bank gave assistance in the morning of £187m through outright purchases of £137m of eligible bank bills in band 1 and £50m in band 2, all at 8⅞ p.c.

Further help in the afternoon came to £444m and comprised outright purchases of £5m of local authority bills and £238m of eligible bank bills in band 1 at 8⅞ p.c. and £38m of Treasury bills and £163m of eligible bank bills in band 2 also at 8⅞ p.c. Late assistance came to £160m, making a total of £791m.

In Frankfurt call money was quoted at 3.55-3.60 p.c., unchanged from Friday. Short term liquidity remained in good supply and traders were expecting conditions to remain comfortable for the rest of the week.

This was partly explained by tomorrow's close of centres in West Germany for a public holiday and the absence of any maturing sale and repurchase agreement this week.

In Amsterdam the Dutch central central bank accepted bids of Fl 4.67bn for three-day special advances at 4.8 p.c. down from 5.1 p.c. at the previous facility. This followed a cut in the Dutch discount rate on November 4. The fresh injection of funds was designed to offset the call on a Fl 4bn state loan due yesterday.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

CONSOLIDATED COMPANY BULTFONTEIN MINE, LIMITED
Registration No 11/00806/06
GRIQUALAND WEST DIAMOND MINING COMPANY, DUTOITSPAN MINE, LIMITED
Registration No 11/00013/06
(Both incorporated in the Republic of South Africa)

DECLARATION OF DIVIDENDS

Notice is hereby given that the directors of the abovementioned companies have declared dividends in respect of the six months ending 31st December, 1987, payable to shareholders registered in the books of the respective companies at the close of business on 18th December 1987. The dividends have been declared in the currency of the Republic of South Africa.

Dividend warrants will be posted from the Kimberley and United Kingdom transfer offices on or about 2nd February, 1988. Registered shareholders paid by the United Kingdom Registrars will receive their dividend in United Kingdom currency converted at the rate of exchange applicable on 21st December, 1987 less appropriate taxes. Any such shareholders may, however, elect to be paid in South African currency, provided that any such request is received at companies' transfer offices in Kimberley or the United Kingdom on or before 18th December, 1987.

The ordinary share transfer registers and registers of members will be closed from 19th December 1987 to 31st December 1987, both days inclusive.

The effective rate of non-resident shareholders' tax is 15 per cent.

The dividend is payable subject to conditions which can be inspected at the head and London offices of the companies and also at the offices of the companies' transfer offices in Kimberley and the United Kingdom.

Company	South African Currency per Share
Consolidated Company Bultfontein Mine, Limited	4.5 cents
Griqualand West Diamond Mining Company, Dutoitspan Mine, Limited	20.5 cents

By order of the Boards
For and on behalf of
ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED
London Secretaries

J C Greensmith

London Office:
40 Holborn Viaduct
EC1P 1AJ

Office of United Kingdom Transfer Secretaries:
Hill Samuel Registrars Limited London
6 Greencoat Place
London, SW1P 1PL

17th November, 1987

£ WORLD VALUE OF THE POUND

The table below gives the latest available rate of exchange for the pound against various currencies on November 2 1987. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, no direct quotation available; (F) free rate; (P) based on US dollar parities and going sterling-dollar rates; (T) tourist rate; (Bas) basic rate; (bg) buying rate; (Bk) bankers rate; (cm) commercial rate; (cn) convertible rate; (fn) financial rate; (exC) exchange certificate rate; (nc) non commercial rate; (nom) nominal; (o) official rate; (sg) selling rate; (c) controlled rate.

COUNTRY	CURRENCY	VALUE OF £ STERLING
Afghanistan	Afghani	99.42
Albania	Lek	9.8373
Algeria	Dinar	8.1305
Andorra	French Franc / Spanish Peseta	10.0850 / 200.80
Angola	Kwanza	52.93
Antigua	E. Caribbean $	4.70
Argentina	Austral	6.9324
Aruba	Florin	3.1527
Australia	Australian $	2.5345
Austria	Schilling	20.985
Azores	Portuguese Escudo	241.25
Bahamas	Bahama $	1.7515
Bahrain	Dinar	0.6585
Balearic Islands	Spanish Peseta	200.80
Gibraltar	Gibraltar £	1.00
Greece	Drachma	234.20
Greenland	Danish Krone	11.4975
Grenada	E. Caribbean $	4.70
Guadaloupe	Local Franc	10.0850
Guam	U.S. $	1.7515
Guatemala	Quetzal	1.7515 / (O)4.5932
Guinea	Franc	391.94
Guinea-Bissau	Peso	1131.65
Guyana	Guyanese $	16.6800
Haiti	Gourde	8.7575
Honduras	Lempira	3.4876
Hong Kong	H.K. $	13.5975
Hungary	Forint	84.8300
Paraguay	Guarani	558.02 / 1653.12
Peru	Inti	exc(o)39.24 / 43.60 / 61.03 / 72.59
Philippines	Peso	36.10
Pitcairn Islands	£ Sterling / N.Z. Dollar	1.7390 / 2.8393
Poland	Zloty(o)	558.64
Portugal	Escudo	241.25
Puerto Rico	U.S. $	1.7515
Qatar	Riyal	6.3600
Reunion Isle de la	French Franc	10.0850

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Nov 87 Vol.	Nov 87 Last	Feb 88 Vol.	Feb 88 Last	May 88 Vol.	May 88 Last	Stock
GOLD C	$440	204	21.50	2	39	—	—	$462.90
GOLD C	$460	91	4.50	—	—	—	—	"
GOLD C	$480	119	0.80	133	14.50	—	—	"
GOLD P	$400	—	—	87	3.60	—	—	"
GOLD P	$420	50	0.20	—	—	31	10	"
GOLD P	$440	10	0.50	72	9.20	14	15	"
GOLD P	$460	52	4	11	15.50	100	19.50	"
		Dec. 87		Mar 88		Jun 88		
SILVER C	$700	40	15	—	—	—	—	$667
		Nov. 87		Dec. 87		Jan. 88		
EOE INDEX C	Fl.185	315	5.50B	77	15.50	93	17A	Fl.187.27
EOE INDEX C	Fl.195	287	2.30	57	10	22	13.50B	"
EOE INDEX P	Fl.200	91	138	25	17.20B	6	22A	"
EOE INDEX P	Fl.255	60	668	52	66	1	67B	"
S/FL C	Fl.185	109	7.50	—	—	—	—	Fl.193
S/FL C	Fl.190	60	3.40	54	4	53	5.50	"
S/FL C	Fl.195	1738	0.60	102	2	27	3	"
S/FL P	Fl.185	4	0.30	34	0.60B	93	1.40	"
S/FL P	Fl.190	15	0.30B	234	2.10	43	3.10	"
S/FL P	Fl.195	18	2.40	24	4	150	5.50	"
S/FL P	Fl.200	18	6.70	41	8	30	8.70	"
S/FL P	Fl.205	80	12.20	68	12.20	—	—	"
S/FL P	Fl.210	45	17.50	3	17	—	—	"
		Mar. 88		June 88		Sep. 88		
S/FL C	Fl.200	125	2.50	11	3.80A	2	4.50	Fl.193
S/FL C	Fl.205	55	1.50	—	—	—	—	"
S/FL C	Fl.210	2	1A	100	1.30	—	—	"
S/FL P	Fl.195	120	7.40	—	—	—	—	"
		Jan. 88		Apr. 88		Jul. 88		
ABN C	Fl.44	1073	2.40B	—	—	—	—	Fl.42.50
ABN P	Fl.45	—	—	—	—	269	6.50	"
AEGON C	Fl.65	184	3	13	4.30	5	5	Fl.60.60
AHOLD C	Fl.75	129	5.80	5	6.50	10	8	Fl.72.50
AHOLD P	Fl.60	68	1.50	—	—	—	—	"
AKZO C	Fl.100	948	8.50	69	13.70	49	14	Fl.97
AKZO P	Fl.100	284	10.60	35	13	47	18B	"
AMEV C	Fl.55	251	1.10	6	1.70	—	—	Fl.45
AMEV P	Fl.40	5	2.50	50	3.70A	—	—	"
AMRO C	Fl.75	535	1	6	2.70	4	3.50	Fl.64.50
AMRO P	Fl.65	105	4	28	5	6	7	"
ELSEVIER C	Fl.45	83	3.90	92	4.80	10	6.10	Fl.42
ELSEVIER P	Fl.35	139	1.70	45	3	—	—	"
GIST-BROC. C	Fl.35	129	3A	80	5.10	1	6	Fl.33.50
GIST-BROC. P	Fl.45	318	12.50	51	13.50B	262	14B	"
HEINEKEN C	Fl.130	129	15.50A	—	—	1	21	Fl.135
HEINEKEN P	Fl.110	49	2.80A	11	5.20	5	10	"
HOOGOVENS C	Fl.40	53	1.30	—	—	—	—	Fl.30.20
KLM C	Fl.35	346	2	228	3.80	5	5.90	Fl.31
KLM P	Fl.35	75	6	10	6.50	4	7	"
NEDLLOYD C	Fl.140	52	8.50	5	14	—	—	Fl.130
NEDLLOYD P	Fl.130	44	12	—	—	1	21	"
NAT NED C	Fl.65	350	1.60B	19	2.30	5	2.50	Fl.55
NAT NED P	Fl.55	66	4.60	—	—	—	—	"
PHILIPS C	Fl.35	923	1.90	236	3.20	46	4.10	Fl.32.10
PHILIPS P	Fl.30	288	2.10	48	3.30	21	4	"
ROYAL DUTCH C	Fl.230	298	6.50	150	12.10	22	15	Fl.209.80
ROYAL DUTCH P	Fl.190	218	4	139	8.50B	—	—	"
ROBECO C	Fl.105	4	1.80	33	2	—	—	Fl.85.60
ROBECO P	Fl.95	70	11	5	15.10	—	—	"
UNILEVER C	Fl.120	694	6.50	70	11.90	15	14	Fl.111.50
UNILEVER P	Fl.90	557	2.50	73	68	16	9.50B	"

TOTAL VOLUME IN CONTRACTS: 43,620

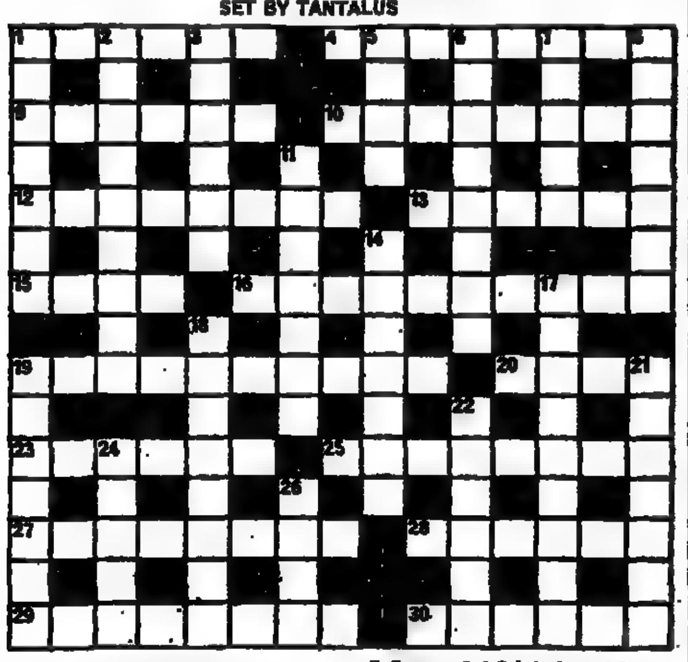
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	● Charterhouse Bank	9	Nat Bk. of Kuwait	9
Adam & Company	9	Citibank NA	9	NatWestminster	9
Allied Arab Bk Ltd	9	City Merchants Bank	9	Northern Bank Ltd	9
Allied Dunbar & Co	9	Clydesdale Bank	9	Norwich Gen. Trust	9
Allied Irish Bank	9	Comm. Bk. N. East	9	PK Finans. Intl (UK)	9½
American Exp. Bk	9	Consolidated Crdt	9	Provincial Trust Ltd	10½
Amro Bank	9	Co-operative Bank ★	9	R. Raphael & Sons	9
Henry Ansbacher	9	Cyprus Popular Bk	9	Roxburghe Guarantee	10½
ANZ Banking Group	9	Duncan Lawrie	9	Royal Bk of Scotland	9
Associates Cap Corp	10	Equatorial Tst C'p plc	9	Royal Trust Bank	9
Authority & Co Ltd	9	Exeter Trust Ltd	9½	Smith Williamson Secs	9
Banco de Bilbao	9	Financial & Gen. Sec	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Fin. Corp	10½	TSB	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd	10½	UDT Mortgage Exp	¶11.1
Bank Credit & Comm	9	● Robert Fleming & Co	9	United Bk of Kuwait	9
Bank of Cyprus	9	Robert Fraser & Ptrs	10	United Mizrahi Bank	9
Bank of Ireland	9	Girobank	9	Unity Trust PLC	9
Bank of India	9	Grindlays Bank	9	Western Trust	9
Bank of Scotland	9	● Guinness Mahon	9	Westpac Bank Corp	9
Banque Belge Ltd	9	HFC Trust & Savings	9	Whiteaway Laidlaw	9½
Barclays Bank	9	● Hambros Bank	9	Yorkshire Bank	9
Benchmark Tst Ltd	9	Heritable & Gen. Tst	9		
Beneficial Trust Ltd	10½	● Hill Samuel §	9		
Berliner Bank AG	9	C. Hoare & Co	9		
Brit Bk of Mid East	9	Hongkong & Shangh	9		
● Brown Shipley	9	Lloyds Bank	9		
Business Mtge Tst	9	Meghraj & Sons Ltd	9		
CL Bank Nederland	9	Midland Bank	9		
Central Capital	9	● Morgan Grenfell	9		
Cayzer Ltd	9	Mt Credit Cpn Ltd	9		

● Members of the Accepting Houses Committee. ★ 7-day deposits 4%. Sanswing 6.66%. Top Tier—£2,500+ at 3 months' notice 8.31%. At call when £10,000+ remains deposited. ¶ Mortgage base rate. § Demand deposit 3.99%. Mortgage 11.125%.

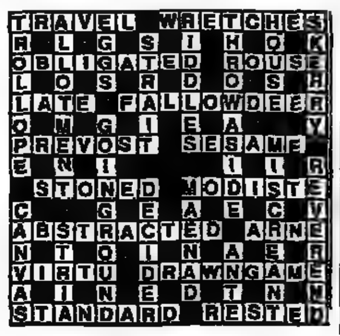
FT CROSSWORD No.6,484
SET BY TANTALUS



ACROSS
1 Dance in Massachusetts (6)
4 Study leaflet and reach agreement (8)
9 Can youngster come back with petty officer? (6)
10 Law breaker gets out from ship's protection (8)
12 Deliveries to ruler - a supreme master (8)
13 It's brought back in large crematorium to punish (6)
15 Correspond with clubs for example (4)
16 Point to men working with unlimited power (10)
19 Reformer makes demonstration to hill dweller (10)
20 Way to record pace (4)
23 Sluggish second boat at Oxford (6)
25 Boss, one to love us being academic (8)
27 10 may be given this in court (8)
28 Strict clergyman rejected in bishop's diocese (6)
29 Fragrant vegetable or flower (5,3)
30 I object - money not sent back for strong cloth (6)

DOWN
1 Page-boy seen in haberdashers (7)
2 Could no saint be in this garment? (9)
3 Prophet displaying gold lace material (6)
5 Stentor fed fish in here (4)
6 Electron makes miner hot (8)
7 Deal maybe right from this tree (5)
8 Rocky hill intended they say to cause anguish (10)
11 Archbishop joins formal goddess (7)
14 Tidying around with decorum (7)
17 He doesn't think much of himself! (9)
18 Contrite writer and I go to camp (8)
19 Favourite, like us, has an ancient Greek hat (7)
21 Parents treated part of horses's foot (7)
22 Twisted head about stick (6)
24 Reach limit (5)
26 Unexpectedly came top (4)

Solution to Puzzle No.6,483



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6772/4/5

Scimitar Global Gth Ac	26.0	27.7	-0.2	–
Do. Income	25.9	27.6	-0.1	0.29
Scimitar European Acc	20.9	22.3	-0.2	–
Do. Income	20.8	22.2	-0.2	0.11
Scimitar UK Eq Inc Acc	31.2	32.9	–	–
Do. Income	29.9	31.5	–	5.64
UK Cap Gth Acc	21.9	23.1	-0.2	–
Scimitar Pac Basin Acc	24.9	26.5	+0.5	–
Scimitar Mangd Exempt*	127.6	133.0	-0.3	–

Trades Union Unit Trust Managers
100 Wood Street, London EC2 01-606 4355

TUUT Nov 2 87	196.2	206.4	–	9.07

Triton Fd Mngrs. Ltd.
Royal Ldn. Hse, Colchester CO1 1RA 0206 764400

Triton General	129.1	134.4	–	1.82

Tyndall Unit Trust Managers Limited
25 Bucklersbury, London EC4N 248 3399

Convertible & Gov't	58.5	62.1	+0.2	6.51
Accum Units	58.5	62.1	+0.2	6.51
Income	75.0	79.5	+1.8	5.49
Accum Units	75.0	79.5	+1.8	5.49
Smaller Co's	86.6	91.8	+1.9	1.64
Accum Units	86.6	91.8	+1.9	1.64
UK Growth	87.7	93.0	+1.9	1.45
Accum Units	87.7	93.0	+1.9	1.45

Scottish Equitable Fund Mgrs. Ltd(a)
28 St Andrews Sq, Edinburgh 031-556 1051

Intl Income Units	119.3	126.9	–	3.06
Intl Accum Units	182.5	194.2	–	3.06
UK General Acc	35.0	37.4	+1.3	3.11
UK General Inc	33.7	36.0	+1.3	3.11
American	23.2	24.9	-0.2	0.64
European	35.7	38.7	+1.7	0.56
Japan	48.7	52.1	+0.5	–
Technology	32.3	34.6	+0.5	1.42
Performance Trusts				
Far East Perf Tst	26.1	27.9	+0.6	0.64
High Inc Perf Tst Inc	22.8	23.9	+0.7	5.37
High Inc Perf Tst Acc	22.5	23.9	+0.6	5.37
Worldwide Tech Perf Tst	24.6	26.2	+0.5	–

UK Provident Unit Trust Managers Ltd
UK House, Castle St, Salisbury SP1 3SH 0722 336242

UK Equity	127.2	134.8	+2.7	2.96

UK Unit Trust Managers Ltd
Worthing Road, Horsham, RH12 1SL 0403 40038

Scottish Life Investments(x)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK Equity)	196.4	210.1	+7.9	2.82
Columbus (America)	121.0	129.5	+0.7	1.33
Marco Polo (Pacific)	187.0	200.1	+2.2	0.49
Da Vinci (European)	211.4	226.2	+3.5	1.63

Unit Trust Account & Mgmt. Ltd
20 Copthall Ave, London, EC2R 7PA 01-588 6064

Friars Hse Cap Fd	162.3	172.7	–	–
Friars Hse Inc Fd	137.9	145.2	–	–

United Charities Unit Trusts (a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7 01-534 5544

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	185.5	195.3	+6.5	3.00
UK Smlr. Cos. Equity	185.2	197.1	+7.9	2.30
European	157.0	167.1	+3.4	2.20
Far Eastern	48.5	51.7	+2.0	2.08
Japanese	177.5	188.9	+1.2	0.36
North American	106.8	113.7	-0.4	1.52
International Growth	101.7	108.2	+0.7	1.22

Vanguard Trust Managers Ltd
65 Holborn Viaduct, London EC1A 2EU 01-236 3053
Dealing Line: 01-236 2468

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assur.	348.1	366.5	—	–
Eb'r Ph. Eq.	388.9	412.3	—	–
Pension Plan Funds				
Phoenix				
UK Equity Acc.	153.2	161.2	+5.2	–
International Acc.	119.2	125.4	+1.7	–
Property Acc.	117.8	123.9	—	–
Fixed Interest Acc.	152.1	160.1	-0.1	–
Money Acc.	128.9	135.6	+0.1	–
Bldg. Soc. Link Acc.	130.5	137.3	+0.1	–
Special Mngd. Acc.0	138.3	145.5	+2.9	–
Phoenix/Framlington				
Intnl. Growth Acc.	76.6	80.6	+2.4	–
Amer. & Gen. Acc.	72.8	76.6	+1.6	–
Capital Tst. Acc.	157.9	166.2	+0.4	–
Japan & Gen Acc.	149.6	157.4	+10.9	–
American Turn. Acc.	70.9	74.6	+1.7	–
Recovery Tst. Acc.	147.4	155.3	+1.6	–
Special Mngd Acc.	127.1	133.7	+1.7	–
Phoenix/GT				
International Acc.	112.8	118.7	+2.7	–
US & General Acc.	82.8	87.1	+2.1	–
Amer Spec Sits Acc.	56.9	59.9	+1.3	–
Japan & General Acc.	147.8	155.5	+5.3	–
Far East & Gen. Acc.	123.5	129.9	+7.6	–
UK Capital Acc.	143.1	150.6	-0.5	–
European Acc.	125.9	132.5	+2.5	–
Special Mngd. Acc.	112.6	118.5	+1.7	–

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	249.5	262.7	—	–
Man Pens Inc & Cap Fds	314.4	331.0	—	–
Money Fund	110.0	115.8	—	–
Pens. Mngd Fd (Init)	75.2	79.2	—	–
Pens Mngd Fd (Acc)	83.0	87.4	—	–
Pens FT30 Fd (Init)	113.0	119.0	—	–
Pens FT30 Fd (Acc)	124.7	131.3	—	–
Pens O'seas MgFd(Init)	49.1	51.7	—	–
Pens O'seas MgFd(Acc)	54.2	57.1	—	–
Pens Fxd Int Fd (Init)	108.0	113.7	—	–
Pens Fxd Int Fd (Acc)	119.2	125.5	—	–
Pens Deposit Fd (Init)	100.1	105.4	—	–
Pens Deposit Fd (Acc)	110.5	116.4	—	–

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Prufund				
Managed Nov 11	178.8	186.3	—	–

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd.	389.1	409.6	—	–
Equity Fd.	763.2	803.4	+12.9	–
Intnl. Fd.	288.2	303.4	+1.9	–
Fixed Int. Fd.	356.1	374.9	-1.4	–
Prop. Fd.	292.0	307.4	—	–
Cash Fd.	231.0	243.2	—	–
Pacific Basin Fd.	152.5	160.6	+1.2	–
North American Fd.	114.2	120.2	-0.2	–
European Fd.	133.2	140.3	+1.6	–

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	409.7	431.3	—	–
Equity	592.7	623.9	+13.9	–
Global Equity	184.5	194.3	—	–
Fixed Interest	367.5	386.9	-1.4	–
Property	287.3	302.5	—	–
Cash	134.9	142.1	+0.1	–
Index Linked Gilt	160.7	169.2	-1.0	–
Guaranteed	9.25	10.25	—	–
International Money	182.7	192.4	-0.3	–
North American Fd	53.2	56.1	—	–
Japanese Fund	100.6	105.9	—	–
European Fund	70.3	74.1	—	–
Special Situations Fd	81.1	85.4	—	–
Communications Fund	75.8	79.8	—	–
Smaller Cos Fund	86.0	90.6	—	–

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

إهداء من الأستاذ أحمد

FT UNIT TRUST INFORMATION SERVICE

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

1987 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99[illegible]	97[illegible]	Treas 7¾pc 1985-88‡‡	99[illegible]	.....	7.77	8.54
102[illegible]	99[illegible]	Exch 10½pc '88	100[illegible]	.....	10.41	8.61
101[illegible]	98[illegible]	Treas 9¾pc Cv '88	100[illegible]	.....	9.69	8.71
97[illegible]	95[illegible]	Transport 3pc '78-88	97[illegible]	.....	3.07	6.68
101[illegible]	98[illegible]	Treas. 9½pc '88	100[illegible]	.....	9.44	8.75
105[illegible]	101[illegible]	Treas 11½pc 1989	102[illegible]	[illegible]	11.16	8.83
102[illegible]	97[illegible]	Treas 9½pc Cnv 1989	100[illegible]	[illegible]	9.42	8.81
96[illegible]	89[illegible]	Treas 3pc 1989	95[illegible]	[illegible]	3.14	6.11
104[illegible]	99[illegible]	Treas 10½pc 1989	102[illegible]	[illegible]	10.25	8.81
103[illegible]	98[illegible]	Exch 10pc 1989	101[illegible]	[illegible]	9.83	8.88
105[illegible]	100[illegible]	Exch 11pc 1989	103[illegible]	[illegible]	10.62	8.86
96[illegible]	89[illegible]	Treas 5pc 1986-89	95[illegible]	[illegible]	5.23	7.48
108[illegible]	99[illegible]	Exch 10¼pcCv '89	104[illegible]	[illegible]	9.77	7.53
111[illegible]	104[illegible]	Treas 13pc 1990‡‡	107[illegible]	[illegible]	12.04	8.83
106[illegible]	100[illegible]	Exch 11pc 1990‡‡	104	[illegible]	10.56	8.88
110[illegible]	103[illegible]	Exch. 12½pc 1990	107[illegible]	[illegible]	11.64	8.91
92[illegible]	84[illegible]	Treas. 3pc 1990	92[illegible]	[illegible]	3.26	6.53
100[illegible]	93[illegible]	Treas 8¼pc 1987-90‡‡	98[illegible]	[illegible]	8.35	8.80
105	97[illegible]	Treas. 10pcCv 1990	102[illegible]	[illegible]	9.73	8.89
91[illegible]	81[illegible]	Exch 2½pc 1990	89[illegible]	[illegible]	2.78	6.23
110[illegible]	102[illegible]	Treas 11¾pc 1991	107[illegible]	[illegible]	10.94	8.95
95[illegible]	87[illegible]	Funding 5¾pc '87-91‡‡	93[illegible]	[illegible]	6.13	7.88
90[illegible]	80[illegible]	Treas. 3pc 1991	88[illegible]	[illegible]	3.37	6.58
110[illegible]	98[illegible]	Treas 10pc Cv '91 ‡‡	104[illegible]	[illegible]	9.58	8.39
109[illegible]	101[illegible]	Exch. 11pc 1991	106[illegible]	[illegible]	10.30	8.91
99	91[illegible]	Treas. 8pc 1991	97[illegible]	[illegible]	8.24	8.86
116[illegible]	107[illegible]	Treas 12¾pc 1992‡‡	112[illegible]	[illegible]	11.30	8.96
106[illegible]	97[illegible]	Treas 10pc 1992	103[illegible]	[illegible]	9.65	8.94
99[illegible]	90[illegible]	Treas. 8pc 1992 ‡‡	96[illegible]	[illegible]	8.70	10.25
108[illegible]	99[illegible]	Treas 10½pc Cv 1992‡‡	105[illegible]	[illegible]	9.95	8.96
86[illegible]	79[illegible]	Treas. 3pc 1992	84[illegible]	[illegible]	3.74	8.09
115[illegible]	105[illegible]	Exch. 12¼pc '92	112[illegible]	[illegible]	10.93	9.05
121[illegible]	110[illegible]	Exch 13½pc 1992	116[illegible]	[illegible]	11.54	9.07
		Five to Fifteen Years				
107[illegible]	97[illegible]	Treas 10pc 1993‡‡	103[illegible]	[illegible]	9.62	9.05
118[illegible]	107[illegible]	Treas 12½pc 1993‡‡	114[illegible]	[illegible]	10.90	9.09
95[illegible]	82[illegible]	Funding 6pc 1993‡‡	90[illegible]	[illegible]	6.60	7.97

[illegible]

Over Fifteen Years

[illegible]

BRITISH FUNDS—Contd

Undated

[illegible]

Index-Linked

[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. [illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

[illegible]

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

UNIT TRUST NOTES

[illegible]

LONDON SHARE SERVICE

AMERICANS—Continued

1987 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
39	21½	Rep NY Corpn $5	25	+¼	$1.16	—	2.9
18⅝	8⅝	Rockwell Intl. $1	10⅛xd	−⅛	66c	—	3.5
30⅞	16¼	Sara Lee $1	20xd	−½	$1.00	—	2.9
11⅞	8⅞	Saul (B. F.) $1	9⅝	−⅛	20c	—	1.3
27⅝	2¼	Southwestern Bell $1	21½	....	$2.32	—	6.3
22⅞	10⅛	Staley Continental	11⅛	+⅛	80c	—	4.1
44⅞	21⅝	Sun Co. Inc. $1	27½xd	−⅞	$3.00	—	6.3
42⅞	22¼	TRW Inc. $0.625	24⅝xd	−⅛	$1.60	—	3.7
37⅞	22⅞	Texaco $5	23⅝xd	−¼	$3.04	—	7.4
220	149½	Do. 10pcLn.Stk. 91-5	150xd	....	10%	—	14.7
29⅝	16¼	Texaco $6.25	17xd	+⅞	$3.00	—	10.1
74⅞	43⅝	Time Inc. $1	45⅝xd	−⅛	$1.00	—	1.3
20⅝	11	Tracor $0.33	18⅛xd	+⅛	40c	—	1.3
30⅝	15⅞	Transamerica $1	19xd	....	$1.84	—	5.6
14⅝	1¼	Transworld Corp $5	803p	+11	20c	—	1.4
27⅛	12¼	TRINOVA Corp.	14⅛xd	−⅛	56c	—	2.2
24⅞	12⅝	¶USX $1	16⅞	+⅞	$1.20	—	4.3
19⅝	10⅝	Union Carbide $1	12⅞xd	+⅛	$1.50	—	7.1
37⅞	18⅝	Utd. Technologies	19⅝xd	−⅞	$1.40	—	4.2
38⅝	26½	US West‖	29⅝	+⅛	$3.28	—	6.4
30⅝	17⅛	Waste Management $1	20⅝	−⅛	—	—	—
31⅝	13⅞	Whirpool $1.0	15	....	—	—	—
37⅛	18⅝	¶Woolworth $3½	20⅞	−⅛	$1.32	—	3.6

CANADIANS

1987 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
691p	227p	AbM Gold Corp ‖	278p	+4	—	—	—
26⅛p	10p	¶Abbot Energy Corp.	19½p	+½	—	—	—
18⅛	506p	¶Amer. Barrick Res.	983p	+87	—	—	—
136p	32p	Amer. Dalaco	34½p	....	—	—	—
141p	6p	American Lightwave	6½p	....	—	—	—
122p	33p	¶Amneco	44½p	+½	—	—	—
117	40½p	Angelito Expls.	45½p	+4½	—	—	—
19⅝	10⅝	Bk. Montreal ‖	11xd	....	$2.00	—	8.0
10⅛	522p	Bk. Nova Scot.‖	922p	−9	72c	—	6.0
20⅝	15⅛	BCE ‖	16	....	$2.40	—	6.6
10⅞	579p	¶Bow Valley‖	574p	....	$40c	—	3.1
20	10⅞	¶Brascan‖	11½	−⅛	80c	—	3.4
609p	197p	¶Breakwater Res.	203p	+3	[illegible]	[illegible]	[illegible]

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES—Continued

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
£11½	733	Prudential	845	+22	129.0	—	4.7	—
598	350	Refuge 5p	408		15.75	—	5.3	—
595	345	Royal	350	–18	tQ15.5	—	6.1	—
110	85	Sabre Ins. Hws.	95		—	—	—	—
345	168	Sedgwick Group 10p	189	–7	12.0	1.7	8.7	8.0
339	138	Steel Burrill J.10p	145		9.0	2.0	8.5	8.1
668	403	Stewart Wr. 20p	618		13.0	2.0	2.9	21.9
612	303	Sturge Hldgs 20p	348	+25	16.0	2.5	2.4	22.8
£12¾	645	Sun Alliance	805	–5	125.5	—	4.0	—
£13	865	Sun Life 5p	875	+10	128.5	—	4.4	—
£69½	£36½	Taisho M EDR	£38¾	–½	Q10%	—	1.1	—
£22¼	£14⅛	Torchmark $1.08	£15¼		Q$1.00	—	3.8	—
410	235	Trade Indemnity	350		14.3	—	1.7	—
£34	£19¾	Travelers $1.25	£20¾	–⅛	$2.28	—	6.5	—
£30¼	£17¾	USF & G Corp $2.50	£18¾	–½	Q$2.48	—	7.7	—
£33¾	£16½	USLIFE Corp. $1.0	£17¼		Q$1.28	3.2	4.3	7.5
738	555	Wind Friendly 8 10p	655	+30	21.0	—	4.4	—
464	202	Willis Faber 12½p	218	–1	10.75	2.4	6.8	8.5
128	41	Windsor Secs. 10p	75	+13	0.7	1.5	1.3	—

LEISURE

MOTORS

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

TOBACCOS

TRUSTS, FINANCE, LAND

FINANCE, LAND—Cont.

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

MINES

MINES—Continued

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

TRADITIONAL OPTIONS

3-month call rates

LONDON STOCK EXCHANGE

Thin trading session brings loss of early gains in equities but rally in Gilt-edged

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Oct 26	Nov 5	Nov 6	Nov 16
Nov 9	Nov 19	Nov 20	Nov 30
Nov 23	Dec 3	Dec 4	Dec 14

*New time dealings may take place from 9.00am two business days earlier.

THE UK securities markets continued to focus their attention on the chances for early action on the US budget deficit, and also for a meeting of the G-7 Ministers. Towards the end of the day, doubts gathered over prospects for both, causing the rapid elimination of a 56 FT-SE point gain in equities, and stemming a dull trend in Government bonds.

The session started optimistically, with share prices advancing sharply as a firmer dollar checked the rise in sterling and helped the major exporting stocks. The City awaited with confidence last night's speech by Mrs Thatcher, the UK Prime Minister.

But the early gain in the leading equity index was flimsily based, with only a handful of major stocks attracting significant turnover, and many second-line issues hardly tested, according to marketmakers.

The gain was stopped when the FT-SE 1734 mark - seen as a resistance level - was tested, and the market then began to slip back. The pace of the fall increased in late dealingsas the market reacted to agency reports of remarks by President Reagan on prospects for US tax cuts.

By the close, the gain in the FT-SE 100 Index, finally at 1684.7, had been sliced to only 6.4 points. Government bonds, however, rallied as equities lost ground, finishing the day little changed. Index-linked Gilts returned to favour, adding ½, although traders said this reflected a restructuring of yields against conventional Gilts and equitiesand not a revival of inflation worries.

The initial gain in equities was helped along by good trading figures from Unilever, which buttressed the trend set last week by **Shell, BP** and **Wellcome**.

Also encouraging the equity rally was Unilever's A$186m purchase of Bushells, the Australian food manufacturer, a new indication of relative confidence in share markets.

Retail shares firmed up with the help of the 0.8 per cent rise in UK retail sales in October. There was little market support, however, for press suggestions that the fall in global markets might force a sale of the 8.2 per cent stake in **Sears** held by Mr Robert Holmes a Co, the Australian entrepreneur.

But with the exception of a handful of blue chip stocks - **British Petroleum** "new" the outstanding example - there was little support for the broad range of equities.

Nor was the Gilt-edged market in much better form. Prices opened lower as the pound softened and the market waited for news on the G-7 front. Losses ranged to ¼ point before prices steadied on rumours of a meeting over last weekend of G-7 officials, perhaps to arrange a Ministerial meeting, and also of planned cuts in US and West German discount rates.

But retail interest in Gilts was thin, and price movements reflected little more than position-balancing by the marketmakers.

British Petroleum "new" shares were massively traded with almost 250m shares changing hands - much of this through the inter-broker dealing system - the IDB. A leading trader estimated that a stake of some 70m "new" shares, or between one and two per cent of the company, had been acquired yesterday.

It was thought that the shares, believed to have emanated from the US as underwriting stock, could only have gone to either the Kuwaiti Investment Office, which recently acquired a 4.9 per cent holding, or to one of the big Japanese investment houses - Nomura were offering the best price in the market for much of the day, but so also were US house Salomon Brothers.

Analysts were unconvinced by stories that a US oil major could have been picking up a big share stake - "I don't think this is a predatorial move" said one oil company watcher for a leading UK house. The "new" shares eventually closed a net ½ up at 79p, and the old put on 3 to 250p, after 254p, on a turnover of 6.7m.

Unilever, the world wide consumer products company, advanced to 495p before closing 7 better at 470p as the company announced third quarter figures above market expectations.

Analysts forecasts ranged around £380m pre-tax. In the event Unilever weighed in with a figure of 400m, compared with £319m for the corresponding period last year. Some 2.9m shares changed hands yesterday.

British Aerospace were a relatively lively market (some 2.3m shares changed hands) and improved afresh to 329p before settling 2 easier on the day at 323p. The company is believed to have carried out a major revaluation of its pension fund which will result in a contributions holiday for the next two years.

This is expected to offset the currency provision of approximately £100m which the company has indicated will have to be made following the recent slide in the US dollar.

The big-four banks moved ahead in the morning but ran out of steam later in the day. Generally bullish Press comment on the tie-up with **Hong Kong and Shanghai Bank** and a recommendation from securities house BZW to switch into Midland from Lloyds, boosted the former to 408p before a reaction to 393p at the close - a net gain of 5 - on a turnover of almost 3m shares.

Standard Chartered, shaken recently by fears that Robert Holmes a Court may be forced to sell his near 15 per cent stake to raise cash, rallied to close a net 10 firmer at 443p. **Woodchester** jumped 17 to 150p in response to the sharp rise in interim pre-tax profits from £1m to £4, while a Kleinwort Grieveson "buy" boosted **Cater Allen** 5 to 360p.

Insurances made strong progress in the morning but retreated smartly as the session wore on. **Royals** were a disappointing market and lost 18 to 350p as Citicorp ScrimgeourVickers advised clients to look for opportunities to switch into General Accident or Sun Alliance.

Third Market newcomer **Tomorrows Leisure** made a satisfactory debut, the shares settling at 28p compared with the placing price of 25p.

The Brewery sector was a good example initially of the equity market's often exaggerated response to hopes of positive moves soon regarding the US trade deficit. Volume in the four leading issues fell to exceptionally low levels, despite their appeal as major safety-first stocks, but all made good headway before turning back late. Just 1.5m shares of **Allied-Lyons** were traded and the price touched 343p prior to ending only 3 better on the day at 336p. Even fewer shares changed hands of **Bass** which gave back most of an early to close 3 dearer at 779p, after 790p. **Whitbread** "A" were also inactive awaiting today's interim figures but the close was 2 firmer at 271p. BZW and Morgan Grenfell are both looking for pre-tax profits of around £90m compared with £79.8m for the comparable period last year. **Scottish & Newcastle** had more followers than most leaders and advanced 6 to 221p during a turnover of 1.4m shares. Elsewhere, renewed speculative interest put **Merrydown** up 15 to 325p.

An initial mark-up and subsequent small buying helped leading Buildings take a tentative step forward, but prices were quick to turn down as Wall Street failed to hold its opening rise. Closing levels were therefore well below the best with **Blue Circle** only 7½ higher at 357½p after early progress to 365p and **Tarmac** just 5 dearer on balance at 229p, after touching 234p at one stage. **Redland** finished 10 better on the day at 380p; earlier, the price touched 385p. **BPB**, boosted by a broker's circular, touched 274p prior to closing 5 firmer on balance at 265p. **Marley** were a strong performer and rose 10 to 144p, while **Meyer International** gained 8 to 339p awaiting today's half-year figures. **AMEC** picked up 15 at 290p, while **Ward Holdings** rose 21 to 139p on news that the company had raised a £40m syndicated revolving loan facility to finance its future activities.

ICI were boosted at the outset by more favourable currency influences, but failed to hold the gain and eased back to close ⅛ higher on the day at £10½. Elsewhere in the Chemical sector, **Wardle Storeys** gained 45 to 495p in reply to the doubled annual profits and **Foseco** revived with a rise of 9 at 197p.

In a major study of the shoe retailing sector investment house Morgan Grenfell issued a "buy" recommendation on **Stead & Simpson "A"** - " a perennial asset play, with considerabledefensive merits too", William de Winton and John Smith say; Stead & Simpson "A" shares rose 6 to 86p.

Electrical and electronics issues closed well below the day's best levels. **Racal** were especially in demand and spurted to 241p at one point, boosted by the recent numerous positive circular on the company issued by leading brokers, before easing to close a net 9 higher at 231p. **STC** were also a firm market and edged up 4 to 211p.

News that the International Digital Communications consortium, led by **Cable & Wireless** is to be granted a telecoms licence in Japan, helped C & W move up 5 to 325p. **Thorn EMI** raced up to 528p prior to closing 13 up at 507p; analysts are visiting the company's research centre at Hayes, Middlesex, and the HMV record store in Oxford Street today and today after which the company is holding numerous presentations on its various other divisions. **BSR**, which intends to buy in up to 5 per cent of its shares, rose 7 to 83p. **MK Electric**, ahead of Wednesday's interims, put on 14 to 408p. **Plessey**, due to announce second quarter figures on Thursday, touched 160p, before closing only 3 higher at 151p; Kleinwort Grieveson forecast pre-tax profits of £75m for the six months period.

Leading Engineers followed the general trend. **Hawker** moved ahead sharply in a small volume of trade to 448p before reacting to finish 19 higher on balance at 428p. Elesewhere, good preliminary figures prompted a gain of 20 to 200p in **Concentric**. Week-end Press mention stimulated **Braithwaite**, up 23 at 218p, and **B. Elliott**, 3 firmer at 75p. **Birmid Qualcast** were also noteworthy for a rise of 13 at 189p, while acquisition news left **T. Robinson** 11 higher at 358p. **Powerscreen**, helped by a recent buy recommendation from Kleinwort Grievson Securities, firmed 5 further to 120p.

Foods gave a brighter performance until late in the session when prices turned back quite sharply. **Unigate** shrugged aside half-year profits at the lower end of analysts' estimates and closed 9 higher at 295p. **Cadbury Schweppes**, still on hopes that General Cinema of the US may further increase its stake in the company, gained 4 more to 224p. Among Retailers, **J. Sainsbury** firmed 3 to 230p ahead of an analysts' meeting.

Grand Metropolitan were quick to benefit from more favourable currency influences and touched 405p prior to closing 9 higher at 393p. **Norfolk Capital** attracted speculative buying and touched 30p before to closing a penny higher at 26½p.

International stocks got off to a good start, but were looking decidedly uncertain in the late stages of trading with most quotations closing well below the day's best. **Beecham**, scheduled to reveal preliminary figures on Thursday, touched 467p before settling unchanged on the day at 454p. **Boots**, annual results expected tomorrow, managed to hold part of an earlier rise to finish 7 higher on balance at 237p. **Reed International** closed 15 better at 358p after having touched around 366p at one stage.

Elsewhere, **Ted** featured a rise of 33 at 253p in response to news of the agreed bid from C.H. Beazer. Newsletter comment gave a boost to **Arenson**, 10 to the good at 80p, and **Shiloh**, 30 higher at 293p. Press mention enlivened interest in **Smiths Industries** which gained 8 to 212p and **Low and Bonar**, 13 dearer at 169p. Hopes of an increase in European demand for auto catalysts prompted firmness in **Johnson Matthey** which closed 13 to the good 239p.

Dealings in **GRA** resumed at 100p with a close of 96p following the Wembley Stadium acquisition; GRA shares were suspended at 150p at the company's request prior to the market's recent collapse.

The US dollar's continued recovery touched off fresh support of **Jaguar** and the price rose to 385p before settling only 3 up on the session at 322p. A downgraded profits forecast from a broking house failed to suppress **Kwik-Fit**, up 9 at 169p, while **Dowty** made an impressive recovery to end 17 higher at 172p. Distributors also showed up well with the exception of **C.D.Bramall**, down 168 at 460p. The cash alternative of the Avis Europe offer lapsed on Friday and C.D.Bramall shares yesterday came into line with those of the bidding group. Vastly improved mid-term profits from **Trinoco** were tempered by the board's warning that they include the benefit of the traditionally high level of new car registrations in August. The shares lost early firmness to close unchanged at 38p.

Investment advice encouraged reasonable buying of **Bunzl**, which rallied 4 further to 161p, and lesser enthusiasm for **Carlton Communications**, 30 dearer at 533p.

Leading Properties were unable to build on early gains and eased back to close with only small rises on balance. **Land Securities**, after early progress to 470p, came back to close just 3 dearer at at 463p. **MEPC** were finally 10 higher at 440p, after 450p.

British Gas attracted a turnover of 10m and settled a net 2 higher at 131p, after 134p, ahead of Thursday's interim figures.

Traded option contracts totalled 26,071 comprising 16,987 calls and 9,084 puts. **Rolls-Royce** were active, attracting 2,670 calls and 3,077 puts; the April 120 calls accounted for 2,015 trades and the April 120 puts 2,000 trades. The **FTSE** contract attracted 1,052 calls and 1,430 puts.

FINANCIAL TIMES STOCK INDICES

	Nov. 16	Nov. 13	Nov. 12	Nov. 11	Nov. 10	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	90.28	90.63	91.14	90.99	92.92	81.43	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.20	95.36	95.66	95.11	95.44	88.55	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1325.6	1317.1	1328.8	1290.0	1246.9	1278.5	1926.2 (16/7)	1232.0 (9/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	288.2	288.2	282.6	268.6	265.5	302.4	497.5 (4/8)	261.6 (6/11)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div.Yield	4.66	4.69	4.65	4.78	4.97	4.41				
Earnings Yld. %(full)	11.51	11.60	11.51	11.88	12.32	10.21				
P/E Ratio (net)(*)	10.62	10.54	10.63	10.30	9.92	11.98				
SEAQ Bargains (5pm)	36,342	42,229	56,334	39,730	39,569	26,451				
Equity Turnover (£m)	-	1303.63	1693.53	1399.74	1,366.55	983.27				
Equity Bargains	-	51,882	58,432	43,892	42,132	36,958				
Shares Traded (ml)	-	610.6	804.8	653.5	713.5	433.2				

S.E ACTIVITY

Indices	Nov.13	Nov.12
Gilt Edged Bargains	130.8	139.5
Equity Bargains	336.2	378.6
Equity Value	2635.0	3423.1
5-Day average		
Gilt Edged Bargains	166.2	170.3
Equity Bargains	298.8	289.6
Equity Value	2703.7	2732.9

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1340.1	1346.7	1349.2	1357.7	1362.7	1361.5	1360.0	1353.5

Day's High 1365.2 Day's low 1325.2

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.47.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (8).

OILS (1) Evergreen Resources, MINES (1) Eastern Trans. Cons. ... ENGINEERING (2) Airship Inds., Dale Group, FOODS (2) Bassett Foods, Cullen's Hldgs., INDUSTRIALS (3) Bowater Inds., ... PAPERS (1) Davidson Pearce, TRUSTS (2) European Assets, Edinburgh Fund Managers.

NEW LOWS (18).

CANADIANS (1) Bank Nova Scotia, BANKS (1) Goode Durrant, ELECTRICALS (4) ...

Traditional Options

• First dealings Nov 16 • Last dealings Nov 27 • Last declarations Feb 18 • For Settlement Feb 29 *For rate indications see end of London Share Service*

Stocks dealt in for the call included Abaco, Amstrad, British Gas, Spargos, GEC, GKN, Polly Peck, Blacks Leisure, Amalgamated Financial, Dewey Warren, Bula Resources, Sears, Tranwood, Flogas, Eagle Trust, Benjamin Priest, Aran Energy, Tootal, Property Trust, Bat Industries, Centreway Industries, Camford, Ferranti and Astra Holdings. A put option was arranged in Reuters B, while British Petroleum were dealt in for the double.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	[illegible]	[illegible]	[illegible]
Corporations, Dominion and Foreign Bonds	[illegible]	[illegible]	[illegible]
Industrials	[illegible]	[illegible]	[illegible]
Financial and Properties	[illegible]	[illegible]	[illegible]
Oils	[illegible]	[illegible]	[illegible]
Plantations	[illegible]	[illegible]	[illegible]
Mines	[illegible]	[illegible]	[illegible]
Others	[illegible]	[illegible]	[illegible]
Totals	1,456	494	1,015

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Monday November 16 1987

[illegible]

FIXED INTEREST

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

WORLD STOCK MARKETS

AUSTRIA

November 16	Price Sch %	+ or −
Creditanstalt	1,990	+20
Goesser	2,760	+90
Interunfall	11,150	−350
Jungbunzlauer	6,800	—
Laenderbank	358	+8
Perlmooser	615	+10
Steyr-Daimler	115	—
Veitscher Mag	630	−25

BELGIUM/LUXEMBOURG

November 16	Price Frs.	+ or −
B.B.L.	2,450	+45
Banque Gen. Du. L.	13,300	−100
Bank Int. A	13,000	—
Bekaert B	8,000	+50
Ciment CBR	4,655	+156
Cockerill	140	—
Colruyt	6,600	+100
Delhaize	3,050	+190
EBES	4,500	+85
Fabrique Nat	820	+20
GB Inno BM	890	+40
GBL (Brux)	2,750	+110
Generale Bank	4,505	+125
Gevaert	6,300	+300
[illegible]	[illegible]	[illegible]

GERMANY

November 16	Price Dm.	+ or −
AEG	244.5	+11.5
Allianz AG	1,198	+43
BASF	258	+4.5
Bayer	279	+4.5
Bayer-Hypo	318	−10
Bayer-Verein	330	−5
BHF-Bank	355	+2
BMW	455	+5
Brown Boveri	284	−3
Commerzbank	231.5	−1
Cont'l Gummi	225.5	+0.7
Daimler-Benz	710	+5
Degussa	311	−19
D'sche Babcock	154	—
Deutsche Bank	467	+7
Dresdner Bank	246	+2
Feldmuehle Nobel	269	+14
Henkel	532	+4
Hochtief	374.8	+7.8
Hoechst	255.5	+4.5
Hoesch Werke	100	−1.5
Holzmann (P)	283	−1
Horten	180	−5
Hussel	434.5	+14.5
Karstadt	465	−3
Kaufhof	450	+11
KHD	98	−4
Kloeckner Werke	78	−10
Linde	485	+19
[illegible]	[illegible]	[illegible]

SPAIN

November 16	Price Pts.	+ or −
Alcatel	600.00	−100
Banco Bilbao	1349.00	—
Banco Central	905.00	+5
Banco Exterior	489.00	—
Banco Hispano	665.00	—
Banco Popular	1351.00	+1
Banco Santander	1015.00	+5
Banco de Vizcaya	1291.00	—
Banesto	880.00	—
Dragados	417.50	+12.5
Hidrola	90.50	+1.8
Iberduero	117.20	+2.2
Petroleos	494.00	+10
Telefonica	161.70	+1.2

SWEDEN

November 16	Price Kronor	+ or −
AGA (Free)	147	+9
Alfa-Laval	241	+8
ASEA B (Free)	306	+8
Astra B (Free)	207	+3
Atlas Copco	172	+4
Beijer A Fria	233	—
[illegible]	[illegible]	[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SWITZERLAND

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (Continued)

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

JAPAN (Continued)

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

Closing prices November 16

[illegible]

MONTREAL

Closing prices November 16

[illegible]

F=No voting rights or restricted voting rights.

Total Sales [illegible] shares

Indices

NEW YORK–DOW JONES

[illegible]

STANDARD AND POORS

[illegible]

N.Y.S.E. ALL COMMON

[illegible]

RISES AND FALLS

[illegible]

TORONTO	Nov 16	Nov 13	Nov 12	Nov 11	1987 High	1987 Low
Metals & Minls	2,318.8	2,298.2	2283.3	2195.8	3,587.5 (5/10/87)	1,989.2 (2/1/86)
Composite	2,855.18	2,846.1	2838.5	2872.5	4,112.9 (13/8)	2,843.9 (10/11)
MONTREAL Portfolio	1,486.14	1,482.3	1482.45	1476.43	2,224.77 (12/12)	1,435.94 (28/10)

* Indicates pre-close figure

[illegible]

Swiss Bank Ind. (31/12/58)	519.5	500.3	488.5	458.9	729.7 (5/10)	450.9 (10/11)
WORLD M.S. Capital Intl. (1/1/70)	(u)	395.4	390.9	381.0	495.9 (27/8)	361.3 (2/1)

** Saturday November 14 Japan Nikkei (c), TSE (c)

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Metals – 500; NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

LONDON – Most Active Stocks
Monday, November 16, 1987

	Stocks Traded	Closing Price	Change on Day
Brit Telecom	112.8m		
Brit Gas	110.0m		
Beecham	17.1m		
Racal	16.8m		
Marks & Spencer	16.6m		
BP	14.4m		
Rolls-Royce	16.0m		
Cable & Wire	15.8m		
Hanson Trust	15.7m		
BAT	15.3m		
Gen Electric	15.3m		

TOKYO – Most Active Stocks
Monday, November 16, 1987

	Stocks Traded	Closing Prices	Change on Day
Japan Synth. Rubber	29.59m	772	+24
Hitachi	11.85m	1,240	–
Kawasaki Steel	9.13m	338	−1
Nippon Steel	8.23m	420	–
Matsushita Elec Ind	7.18m	2,190	−10
Nippon Stainless Stl	7.18m	870	–
NEC	5.51m	1,880	–
Nagase & Co	5.31m	1,500	+100
Fujitsu	4.82m	1,210	−20
Sony	3.98m	4,790	+150

LONDON Chief price changes (in pence unless otherwise indicated)

RISES:

Tr 2½% IL 2003	£105⅝	+1⅝
Carless Capel	85	+6
Concentric	200	+20
Dowty	172	+17
Hammerson A	460	+37
Marley	144	+10
NMW Computers	145	+25
Phoenix Prop	110	+15
Ratners	254	+13
Reed Intl	358	+15
Rothmans	349	+14
Shiloh	293	+30
Stand. Chartered	443	+10
Thorn EMI	507	+13
Ward Hldgs	139	+21
Wardle Storeys	495	+45
Woodchester	150	+17

FALLS:

Bramall (C.D.)	460	−166

OVER-THE-COUNTER *Nasdaq national market, closing prices*

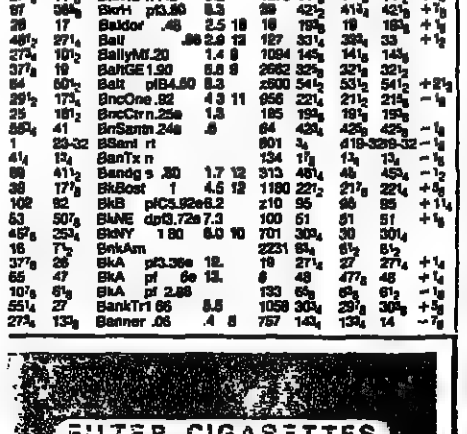
Continued from Page 45

[illegible]

Stock	Sales (Hds)	High	Low	Last	Chng
Reeves	16 345	6⅝	6⅜	6½	
Xicor	98 486	6⅞	6⅝	6¾	
Xidex	3364	6½	6¼	6⅜	
Xylogic	9 222	9	8¼	8½	
Xyvan	23 78	9¼	8¾	8¾	−¼
YlowFs .62	18 1794	27	25¾	25¾	−1⅛
ZionUt 1.44	64	27¾	27	27⅝	+⅜
Zondvn	604	9½	9⅛	9⅛	
Zycad	209	3⅞	3⅝	3¾	

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14¾	AAR s	.36	2.0	17	281	18	17⅞	18	+¼
32½	17½	AFG s	.16	.6	9	1760	25¾	25⅜	25¾	+¼
27	10½	AGS s			13	433	15⅝	15	15½	+⅝
9⅜	3¼	AM Ind			49	2440	5¾	5⅜	5⅜	-½
66½	29½	AMR			10	3682	34⅞	32⅞	33⅜	-½
12¼	6⅝	ARX s			7	249	7	6⅞	6⅞	-⅛
73½	34½	ASA	2a	4.5		694	45½	44¾	44⅞	-⅛
22⅝	9½	AVX			17	100	13¾	13⅝	13⅝	-¼
67	40	AbtLab	1	2.1	18	3215	49	47	47¾	+⅛
28	15⅜	Abitibi g				28	17	17	17	+⅜
16¾	9	AcmeC	.40	4.2	10	521	10¼	9⅝	9½	-⅜
10½	6⅞	AcmeE	.32b	4.3	25	10	7⅜	7¼	7⅜	
23¼	16½	AdaEx	3.34e	17.		916	19⅞	19⅝	19⅞	
19½	7¾	AdmM s	.24	2.6	7	88	9⅝	9⅝	9⅝	
35	14⅜	AdvSys			18	934	27⅞	25¾	27⅞	+1⅛
24⅞	9½	AMD				3745	10⅞	10⅛	10½	-¼
56¾	30½	AMD pf	3	9.5		547	31½	30¾	31½	+⅛
11⅞	4¾	Adobe				380	5½	5	5⅛	+⅛
20½	16½	Adob pf	1.84	11.		6	17⅜	17¼	17⅜	+⅜
21⅞	17	Adob pf	2.40	11.		60	21¼	21	21	+½
15	6⅛	Advest	.12a	1.5	6	371	8¼	8	8	-⅜
66¼	46	AetnLf	2.76	5.6	7	4269	50⅝	49⅝	49½	-⅝
63½	30⅜	AflPb s	.32	.7	8	317	50	48⅝	48¾	+¼
26⅞	15	Ahmans	.88	5.6	7	3616	16⅝	15⅝	15⅝	-⅛
5⅞	1¾	Aileen				40	2⅞	2⅝	2¾	
53⅞	29	AirPrd	1	2.7	13	918	36⅞	35⅞	36⅝	+¼
38	11½	AirbFrt	.60	4.7	8	114	12⅝	12¾	12⅞	+⅛
16½	7⅝	Airgas n			15	48	11	10⅛	10½	+⅝
19½	13½	Airlease	2.11e	13.	8	63	16⅛	15⅝	16	+⅛
15-32	¼	AlMoan			16	10	5-16	5-16	5-16	
10¾	7⅝	AlaP dpf	.87	9.6		53	9¼	9⅛	9⅛	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



Continued on Page 45

NYSE COMPOSITE CLOSING PRICES

Continued from Page 44

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
85	60	Xerox	3	5.1	12	1287	59	58	58½	+½
58¼	52½	Xerox pf5.45		10.		12	54½	54⅛	54¼	+⅛
31½	19¾	XTRA	.64	2.7	15	13	23½	23½	23½	
28¼	19½	XTRA pf1.94		9.0		29	22	21½	21½	+½
33⅞	16⅞	Yorkin			9	187	23¼	22⅝	22⅝	−⅛
7¼	2¼	Zapata				325	3½	3¼	3¼	−⅛
37	14⅞	Zayre	.40	2.1	7	1881	20¼	19	19¼	−½
16⅞	9¼	Zemex	.40	3.9	9	7	10⅛	10¼	10¼	
35⅝	10	ZenithE				1133	14½	14	14¼	+⅛
13½	3⅝	ZenLab				589	4¼	3⅞	4⅛	
28½	13½	ZenNtl	.80	4.9	8	181	16½	16⅛	16⅛	
20⅞	11⅞	Zero	.36	2.8	13	159	13¼	12¾	13	
30¼	15	Zurnin s	.56	3.6	12	412	15¾	15	15¾	+⅝
10⅝	7⅞	Zweig	.85e	7.3		463	8⅞	8¾	8⅞	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER

Nasdaq national market, closing prices

Continued on Page 43

FINANCIAL TIMES

WORLD STOCK MARKETS

AMERICA

Pessimism over budget stems rally

WALL STREET

CONFUSION and pessimism over Washington's budget deficit reduction negotiations undercut a modest morning equity rally on Wall Street yesterday, *writes Roderick Oram in New York.*

Credit markets were similarly unsettled after the talks prognosis appeared less optimistic than President Ronald Reagan had indicated over the weekend.

The Dow Jones industrial average closed up 14.09 points at 1,949.10 compared with a gain of nearly 35 points shortly after the opening.

Broader market indices followed suit with the Standard & Poor's 500 closing up 1.12 at 246.76 and the New York Stock Exchange composite index edging up 0.56 to 138.16. The over-the-counter composite index slipped by 0.60 to 322.37.

New York Stock Exchange volume was relatively light at 164.8m shares as investors waited for a resolution to the budget talks. Advancing issues outnumbered those declining by 866 to 690.

Takeover candidates dominated the most active issues. Bell and Howell advanced $3¾ to $61⅞. An investor group led by Mr Robert Bass, a Texas investor, is seeking permission to raise its stake in the publishing and information retrieval equipment manufacturer to as much as 25 per cent from 16.2 per cent.

Mr Robert Maxwell, the UK publishing magnate, has said he will seek to boost his Bell and Howell stake to 50 per cent. In addition, Macmillan, a US publisher which gained $⅞ to $47⅞ yesterday, has an 8 per cent holding.

Harcourt Brace Jovanovich edged up $¼ to $5⅞ after it had announced the sale of a magazine publisher and school supplies business for $344.1m. The publishing group said the disposals completed its asset sales which will help reduce its heavy debt load incurred earlier this year fighting off a takeover offer from Mr Maxwell.

Pan Am gained $⅛ to $3¾ on heavy volume of more than 850,000 shares as several suitors intensified efforts to launch a takeover offer for the airline. A coalition of Pan Am's unions has been holding talks with representatives of the Pritzker family of Chicago with a view to joining in the bidding and Tower Financial urged unions to join its attempt to make an offer.

Singer added $1¼ to $49¾. The aerospace electronics group rejected a $50-a-share offer from Mr Paul Bilzerian, a Florida investor, and said it would pursue alternative restructuring proposals or takeover offers.

CNW gained $1 to $24. Gibbons, Green, Van Amerongen raised its leveraged buyout offer for the Chicago-based railway holding company by $1 a share to $31.

Pennwalt rose $1¼ to $42¾ after it had received approval to market a drug to relieve high blood pressure. It will compete against Diazide made by SmithKline Beckman which added $⅝ to $48⅝.

Credit markets lost some of their modest overnight gains after dealers and investors had become uncertain about the progress of budget talks. By late afternoon the Treasury's benchmark 8.75 per cent 30-year bond was up ¹⁄₃₂ of a point at 98¾ yielding 8.89 per cent. Short-term rates were edged slightly lower with, for example, three-month Treasury bills falling six basis points to 6.01 per cent.

The Fed funds rate at which banks lend reserves to each other was relatively high at 7 per cent, roughly half a point above the Federal Reserve's apparent target. The key short-term interest rate was boosted, however, by the heavy payments due yesterday for Treasury securities bought at the November quarterly refunding. The Fed made system repurchases to ease the pressure, and the rate is expected to drop back to around 6¾ per cent.

The 0.6 per cent rise in industrial production in October was slightly lower than most economists expected but had no impact on credit markets.

CANADA

TAKING A lead from Wall Street, stocks in Canada advanced broadly, holding on to most of their early gains.

Golds were mostly higher, with Lac Minerals rising C$1 to C$11⅜, Placer Dome firming C$⅛ to C$16½ and Echo Bay gaining C$⅝ to C$25¾.

In energy issues, Shell Canada advanced C$½ to C$32½ and Imperial Oil class A moved ahead C$¼ to C$56¼.

Mines posted broad gains.

Wellington continues its belated comeback

NEW ZEALAND's share market reassuringly extended Friday's gains yesterday after prices had tumbled to a 20-month low during last week and unsettlingly ignored recoveries in overseas markets, *writes Dai Hayward in Wellington.*

The Barclays index picked up 27.74 points to close at 2,248.24 as active buying extended the 74 point leap made on Friday.

Before Friday's surge, however, the market had slumped 81 points on Wednesday and a further 72 on Thursday, taking the Barclays index to a 20-month trough of 2,146.

A worrying factor of last week's declines was that they ignored the backdrop of healthier overseas markets. In addition, the futures index indicated worse falls to come.

However, Friday's shopping spree continued yesterday, and rises included Goodman Fielder, 6 cents higher at NZ$3.80, New Zealand Forests, 5 cents up at NZ$3.57 and Brierly Investments, 2 cents up at NZ$3.57. Carter Holt, however, slipped a further 9 cents to NZ$2.26.

Mr Bob Jones, chairman of Robert Jones, the property investment company with international holdings, forecasts that the Wellington market will divide into two levels, with most activity and confined to the country's top 10 companies. He said, though, that some companies now listed would go to the wall. He also predicted "rich pickings" for takeover enthusiasts or bargain hunters.

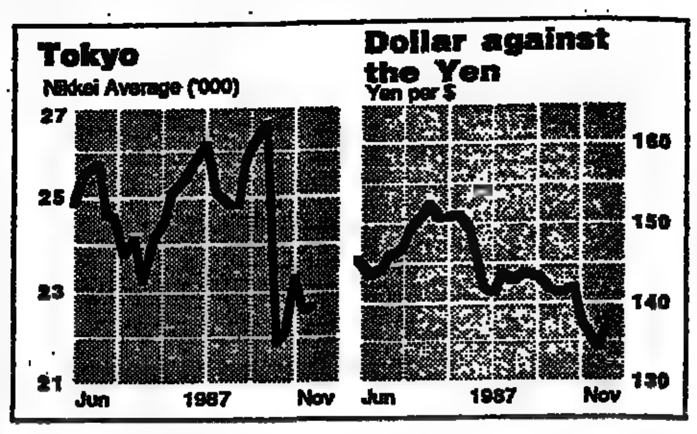
Buying may also receive some support in the longer term as a result of easier domestic interest rates.

With investors, particularly smaller ones, having deserted the stock market, banks have large deposit funds for which there are few borrowers. This has put heavy pressure on wholesale money rates, and trading banks last week dropped their interest rates for corporate lending.

Five year government stock interest rates fell below 16 per cent for the first time in four months.

ASIA

Nikkei sustains advance on speculative buying



TOKYO

SELECTIVE buying in pharmaceuticals and a spattering of speculative buying nudged Tokyo prices to a further rise yesterday in thin trade, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average rose 167.18 to 22,615.43. Volume fell to 292.15m shares from 523.26m on Friday. Risers led fallers by 568 to 295, with 139 issues unchanged.

The market was still cheered by the lower September US trade deficit, but not helped by the dollar's rise or signs that a US budget deficit package may be near.

Japan Synthetic Rubber headed the actives with 20.69m shares on speculative interest. It rose Y24 to Y772 on reports it has developed a flexible battery with Matsushita Electric Industrial.

Ajinomoto climbed Y70 to Y3,550 on possibilities of a treatment for AIDS. Good figures sent Nippon Hodo Y40 higher to Y3,740.

Sony soared Y150 to Y4,700 as other high-tech electricals opened firm, but dipped later. Matsushita Electric Industrial gained Y20 to Y2,220 but closed Y10 lower at Y2,190. NEC finished unchanged at Y1,980 after advancing Y40 to Y2,020, Fujitsu fell Y20 to Y1,210, while Fuji Photo Film closed off Y30 at Y3,830.

Sumitomo Bank rose Y80 to Y3,280 and Mitsubishi Trust and Banking Y60 to Y3,060. In securities houses Nomura Securities added Y40 to Y3,440 and Daiwa Securities rose Y60 to Y2,140.

In pharmaceuticals, Yamanouchi Pharmaceutical rose Y110 to Y3,610 and Shionogi Y50 to Y1,450.

Bonds fell further in thin trade as the dollar's climb prompted small-lot sales.

The yield on the 5.1 per cent Government bond due in June 1996 rose to 5.190 per cent from 4.970 per cent on Friday, with the day's low at 5.060 per cent.

Prices continued to rise on the Osaka Securities Exchange on selective interest in small stocks. The OSE stock average closed 210.49 higher at 23,003.49 on turnover of 33.48m shares, down 29.22m from Friday.

HONG KONG

AS OVERSEAS selling began to tail off and buying spread broadly through the market, Hong Kong prices rose strongly in moderate trading. The Hang Seng index closed 84.12 higher at 2,310.26.

Properties flourished, Sun Hung Kai adding 55 cents to HK$9, New World Development 40 cents to HK$7.35 and Hang Lung Development 35 cents to HK$4.70.

Hong Kong Telephone led utilities higher, adding 50 cents to HK$12.50, while Hongkong Electric gained 25 cents to HK$7.55. Hongkong Bank rose 5 cents to HK$7.30.

SINGAPORE

BARGAIN-HUNTERS lifted Singapore share prices broadly higher in moderate trade, with the Straits Times industrial index rising 21.95 to 844.19.

Blue chips dominated. City Development topped the actives to gain 3 cents at S$2.09.

National Iron was 30 cents higher at S$4.96, Fraser and Neave climbed 25 cents to S$7.55 and Inchcape put on 15 cents to S$3.36. Singapore Airlines and Singapore Press both added 15 cents to S$7 and S$3.34 in turn.

AUSTRALIA

TAKEOVER speculation surrounding underpinned a modest gain in Sydney share prices. The All Ordinaries index closed up 17 at 1,292.2.

Robert Holmes a Court's Bell Group and Bell Resources rose 15 and 25 cents respectively to A$2.10 and A$1.65 on speculation of a possible bid for BHP, up 6 cents to A$7.30.

Resources were mixed, with Peko down 20 cents to A$5.50 but Western Mining adding 16 cents to A$5.24. Golds were selectively bought, Sons of Gwalia adding A$1 to A$7.50.

SOUTH AFRICA

A RALLY from opening lows led by gold and mining house issues lifted Johannesburg shares in quiet trade.

Within golds, Harmony managed a 75 cent rise to R37 and Harties ended 25 cents up at R22.50. Western Areas added 50 cents to R16 and Randfontein R5 to R300. Vaal Reefs, though, dipped R1 to R309.

In mining financials, Anglo American hardened R2 to R59, with Gencor and Gold Fields of South Africa steady at R55 and R50 in turn. Diamond share De Beers rebounded 75 cents to R30. Platinums joined the firmer trend, Impala adding 50 cents to R29.50.

EUROPE

Blue chips rise cautiously on dollar

YET AGAIN investors in Europe looked to Washington for concrete signs of action to reduce the US trade deficit. While the firmer dollar provided an impetus for gains in blue chips, there remained an undertone of wariness regarding longer term prospects for the US currency.

FRANKFURT turned cautious over the medium-term direction of the dollar, turning the strong opening into a mixed close.

The midsession Commerzbank index rose 25.5, or 1.8 per cent, to 1,404.5 and the Boersen-Zeitung index closed 1.84, 0.6 per cent, higher at 291.11.

Export-oriented sectors benefited most strongly from the dollar's ascent. In cars, VW rose DM8.20 to DM275.20 and Daimler and BMW gained DM5 apiece to DM710 and DM455 respectively.

In banks, Deutsche gained DM7 to DM467 and Dresdner added DM2 to DM246, but Bayernhypo dropped DM10 to DM318.

Public authority bonds and Mark Eurobonds moved lower in dull trading. The Bundesbank bought DM114m of paper after selling DM113.2m on Friday.

AMSTERDAM climbed in reaction to the steadier dollar but volume remained low as many investors waited for positive moves to reduce the US budget deficit. The ANP-CBS index rose 12 to 260.6.

LONDON

LATER session doubts over prospects for action on the US budget deficit and the chances of G-7 meeting sliced early gains in equities. After a 64-point rise, the FT-SE 100 index ended 6.4 up at 1,684.7.

Activity focused on Unilever which reported a 26 per cent increase in pre-tax profits for the third quarter. The share price rose to a day's high of Fl 116 before profit-taking pushed it back to Fl 111.50, a net gain of Fl 4.50.

Blue-chips were all higher with Akzo adding Fl 4 to Fl 97.0, KLM rising Fl 1 to Fl 31.0, Philips firming Fl 1.10 to Fl 32.10 and Royal Dutch closing up Fl 5.30 at Fl 209.80.

ZURICH responded enthusiastically to the stronger dollar as some blue chips posted rises of up to 8 per cent early in the session before succumbing to profit-taking.

Financial and industrial shares put in a good showing but banks were mixed.

Chemical shares firmed and Sandoz advanced 7 per cent or SFr900 to SFr12,900.

Among insurances, Swiss Re and Winterthur put on 6 per cent each to SFr11,550 and SFr4,950.

PARIS firmed on expectations that an agreement on US budget deficit cuts was imminent but an underlying mood of caution prompted a bout of late profit-taking. The CAC index rose 10.2 to 302.9.

Leading blue chips were off their highs with Cie du Midi up FFr39 at FFr907, after touching FFr922 and Lafarge Coppee FFr124 up at FFr1,216 after reaching FFr1,237.

Construction stocks recovered from recent heavy falls.

BRUSSELS followed other European bourses higher with gains in blue chips underpinned by the firmer dollar. The cash market index climbed 101.53 to 3,934.84 in moderate trade.

Retailers were broadly higher with GB up BFr40 to BFr890 and Delhaize adding BFr190 to BFr9,050.

In holdings, Reserve - the share of Societe Generale de Belgique - rose BFr95 to BFr2,415, and Sofina added BFr140 to BFr9,590.

STOCKHOLM rallied on the stronger dollar and expectations of a reduction in the US budget deficit. The Affaersvaerlden index rose 3.3 per cent to 708.6 in moderate trading but late profit-taking trimmed early gains.

In blue chips, Volvo climbed SKr16 to SKr277, Saab-Scania added SKr8 to SKr174 and Electrolux was up SKr6 to SKr225.

OSLO was also encouraged by a change in the direction of the US currency and hopes of US budget moves.

The all-share index advanced 29.78 to 380.18 in moderate turnover.

HELSINKI moved higher in slow, lacklustre trading with some foreign selling curtailing a broader advance. The Unitas all-share index climbed 17.8 to 573.4 as banks signposted the way higher.

MILAN saw an active session on the last day of the November cycle and underlying optimism lifted share prices despite the resignation of the coalition government on Saturday.

Blue chips were broadly higher, insurers performed well but holdings ended mixed.

MADRID firmed in thin trading as many investors were sidelined awaiting this week's release of consumer price index figures for October.

The general index advanced 2.67 to 226.39 as construction issues built on recent strength.

Measuring world performance

AS PART of a drive to improve the coverage of international equity markets, the FT-Actuaries World Indices will from today be found on the same page as the world stock market reports, *writes Richard Lambert*. The idea is to facilitate direct comparisons between the daily performance of different financial centres.

The World Indices are constructed on a common formula, share a common base date, and are calculated on the same currency rates. They are also based on the shares of companies which are actually available to international investors.

For the international portfolio manager, they give a much more accurate picture of how different markets are moving than can be drawn from the long-established local market indices.

This has been especially important in the past few weeks. Although equity markets have fallen across the world, some have done much better than others. Tokyo has [illegible] by little more than a tenth since mid-October whereas, at the other extreme, Australia has dropped by more than two fifths.

As a result, Japan is now easily the world's biggest capitalised market, representing 38.5 per cent of the World Index in dollar terms at the end of October. The US, which until recently accounted for nearly half of the world's capitalisation, had slipped back to 35.1 per cent of the World Index at the same date.

The indices are compiled by the FT, Goldman, Sachs & Co., and Wood Mackenzie & Co., in conjunction with the Institute of Actuaries and the Faculty of Actuaries, with each of the three operating partners being responsible for price and capital data from different parts of the world. The series claims three special features.

One is the speed of publication: the indices are calculated every night immediately after the close of the New York Stock Exchange - which, unfortunately, precludes its publication in early editions of the FT. Another is their breadth of coverage: they take in more than 2,400 shares, and aim to capture at least 70 per cent of the equity market value of each country in the series.

Finally, the management of the indices is in the hands of an independent panel, chaired by a representative of the Actuaries and including users drawn from outside investment management groups. This panel is responsible for all decisions on changes in the indices, which are published promptly in the FT.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 16 1987					FRIDAY NOVEMBER 13 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (89)	97.01	+2.2	82.12	93.91	4.33	94.88	79.54	92.11	180.81	85.80	87.54
Austria (16)	90.56	−0.2	76.66	80.53	2.62	90.77	76.09	79.76	102.87	85.53	93.84
Belgium (48)	102.80	+1.9	87.02	91.14	5.27	100.84	84.54	88.28	134.89	96.19	93.72
Canada (127)	102.61	+0.2	86.86	97.89	3.15	102.38	85.83	97.78	141.78	98.15	99.40
Denmark (38)	108.92	−0.9	92.19	97.25	3.07	109.86	92.10	97.23	124.83	98.18	94.86
France (120)	86.69	+4.2	73.38	78.29	3.52	83.21	69.76	74.73	121.82	77.39	94.04
West Germany (93)	77.25	+0.7	65.39	68.37	2.81	76.75	64.34	67.35	104.93	68.91	92.80
Hong Kong (46)	88.48	+4.2	74.90	88.67	5.53	84.90	71.17	85.02	158.68	75.82	87.15
Ireland (14)	107.65	+0.4	91.12	97.61	4.69	107.26	89.92	96.20	160.22	96.20	89.52
Italy (94)	75.55	+1.8	63.95	70.36	2.73	74.24	62.24	68.92	112.11	72.04	97.17
Japan (458)	135.41	+0.2	114.62	116.83	0.59	135.19	113.33	116.13	161.28	100.00	87.86
Malaysia (36)	104.29	+1.7	88.28	100.76	3.56	102.59	86.00	98.96	193.64	98.24	98.94
Mexico (14)	180.62	−6.7	152.89	333.25	0.89	193.69	162.38	360.01	422.59	99.72	94.75
Netherland (37)	99.79	+2.3	84.47	87.45	5.18	97.55	81.78	84.59	131.41	87.70	95.67
New Zealand (23)	78.40	+0.7	66.36	67.85	4.59	77.82	65.24	67.47	138.99	75.99	92.01
Norway (24)	116.87	+1.9	98.93	102.20	2.69	114.65	96.11	99.83	185.01	96.03	103.67
Singapore (27)	99.32	+1.8	84.07	93.92	2.56	97.57	81.79	92.04	174.28	90.19	99.57
South Africa (61)	127.19	+4.7	107.67	88.28	4.65	121.49	101.85	87.81	198.09	100.00	98.81
Spain (43)	122.39	−0.7	103.60	107.05	3.87	123.23	103.31	106.57	168.81	100.00	82.60
Sweden (34)	101.47	+3.2	85.89	92.16	2.50	98.30	82.41	88.70	136.64	88.50	100.74
Switzerland (53)	84.50	+2.0	71.53	73.42	2.29	82.87	69.47	71.28	111.11	73.65	92.15
United Kingdom (332)	120.02	−0.3	101.59	101.59	4.55	120.39	100.93	100.93	162.87	99.65	93.78
USA (582)	100.66	−0.3	85.20	100.66	3.66	101.00	84.67	101.00	137.42	92.83	100.96
Europe (946)	99.25	+0.8	84.01	86.50	3.91	98.49	82.56	85.08	130.02	92.25	93.75
Pacific Basin (679)	132.11	+0.3	111.83	114.88	0.80	131.72	110.43	114.07	158.77	100.00	87.91
Euro–Pacific (1625)	119.00	+0.5	100.73	103.56	1.84	118.47	99.31	102.51	143.65	100.00	90.22
North America (709)	100.76	−0.3	85.29	100.52	3.63	101.07	84.73	100.84	137.55	93.20	100.88
Europe Ex. UK (614)	86.36	+1.7	73.10	77.13	3.35	84.89	71.17	75.21	111.97	78.89	93.76
Pacific Ex. Japan (221)	92.39	+2.7	78.21	89.59	4.63	89.93	75.40	87.31	164.03	83.17	88.62
World Ex. US (1827)	118.56	+0.5	100.36	103.36	1.91	117.99	98.91	102.36	143.38	100.00	90.65
World Ex. UK (2077)	110.81	+0.3	93.79	102.63	2.30	110.53	92.66	102.11	138.82	100.00	94.76
World Ex. So. Af. (2348)	111.51	+0.2	94.39	102.58	2.50	111.33	93.33	102.04	139.47	100.00	94.63
World Ex. Japan (1951)	100.23	+0.2	84.84	95.22	3.77	100.01	[illegible]	94.77	134.22	95.64	97.93
The World Index (2409)	111.61	+0.2	94.48	102.50	2.52	111.39	93.38	101.96	139.73	100.00	94.66

Base values: Dec 31, 1986 = 100

Amendments to indices for November 13 applied to the following: South Africa, the regional indices and The World Index.

Company Notices

ECU 20.000.000

SOCIETES DE DEVELOPPEMENT REGIONAL 11 1/8 % 1983/1990

We inform the bondholders that the redemption instalment of ECU 4.000.000-, nominal due on december 20, 1987, has been satisfied by a drawing on november 5, 1987, in Luxembourg.

The bonds will be reimbursed at par on december 20, 1987, coupon due on december 20, 1988 and following attached, according to the modalities of payment on the bonds.

The numbers of such drawn bonds are as follows:

7173 to 8036 and 12037 to 15172

The following bonds, called for redemption on december 20, 1986, have not yet been presented for the payment:

8037 - 8039	8050 - 8056	8063 - 8067	8073 - 8086
8098 - 8112	8133 - 8136	8158 - 8165	8187 - 8189
8194 - 8230	8234 - 8275	8284 - 8298	8301 - 8361
8394 - 8424	8432 - 8436	8441 - 8463	8485 - 8494
8496 - 8512	8520 - 8522	8593 - 8596	8618 - 8655
8657	8663 - 8666	8718 - 8739	8765
8770 - 8803	8849 - 8854	8877 - 8930	8936 - 8955
9051 - 9065	9126 - 9161	9170 - 9180	9230 - 9246
9291 - 9308	9366 - 9390	9401 - 9444	9454
9457 - 9471	9478 - 9486	9500 - 9502	9507 - 9509
9514	9525 - 9533	9547	9559 - 9605
9633 - 9635	9713 - 9725	9756 - 9761	9768 - 9775
9786 - 9787	9789 - 9793	9801 - 9810	9861
9882 - 9894	9902 - 9910	9934 - 9963	9975 - 9984
10016 - 10043	10048 - 10051	10053 - 10055	10059 - 10091
10097 - 10103	10121 - 10123	10125 - 10129	10252 - 10260
10265 - 10271	10277 - 10310	10318 - 10322	10330 - 10351
10363 - 10453	10456 - 10457	10479 - 10481	10493 - 10495
10586 - 10595	10624	10628 - 10631	10634 - 10635
10690	10720 - 10722	10730 - 10752	10769 - 10778
10785 - 10793	10804 - 10806	10812 - 10813	10816 - 10825
10832 - 10833	10844 - 10863	10890 - 10903	10911 - 10943
10945 - 10948	10954 - 10959	10976 - 10986	10994 - 10995
11000 - 11031	11042 - 11070	11076 - 11079	11111 - 11135
11147 - 11154	11156 - 11163	11223 - 11243	11268 - 11293
11344 - 11352	11371 - 11372	11414 - 11416	11431 - 11452
11501 - 11522	11533 - 11540	11554 - 11565	11580 - 11618
11623 - 11625	11627 - 11656	11658 - 11663	11665 - 11674
11683 - 11690	11692 - 11741	11794 - 11799	11808 - 11811
11814 - 11821	11845 - 11851	11864 - 11903	11906 - 11999
12010 - 12036			

Amount outstanding after december 20, 1987: ECU 12.000.000,-

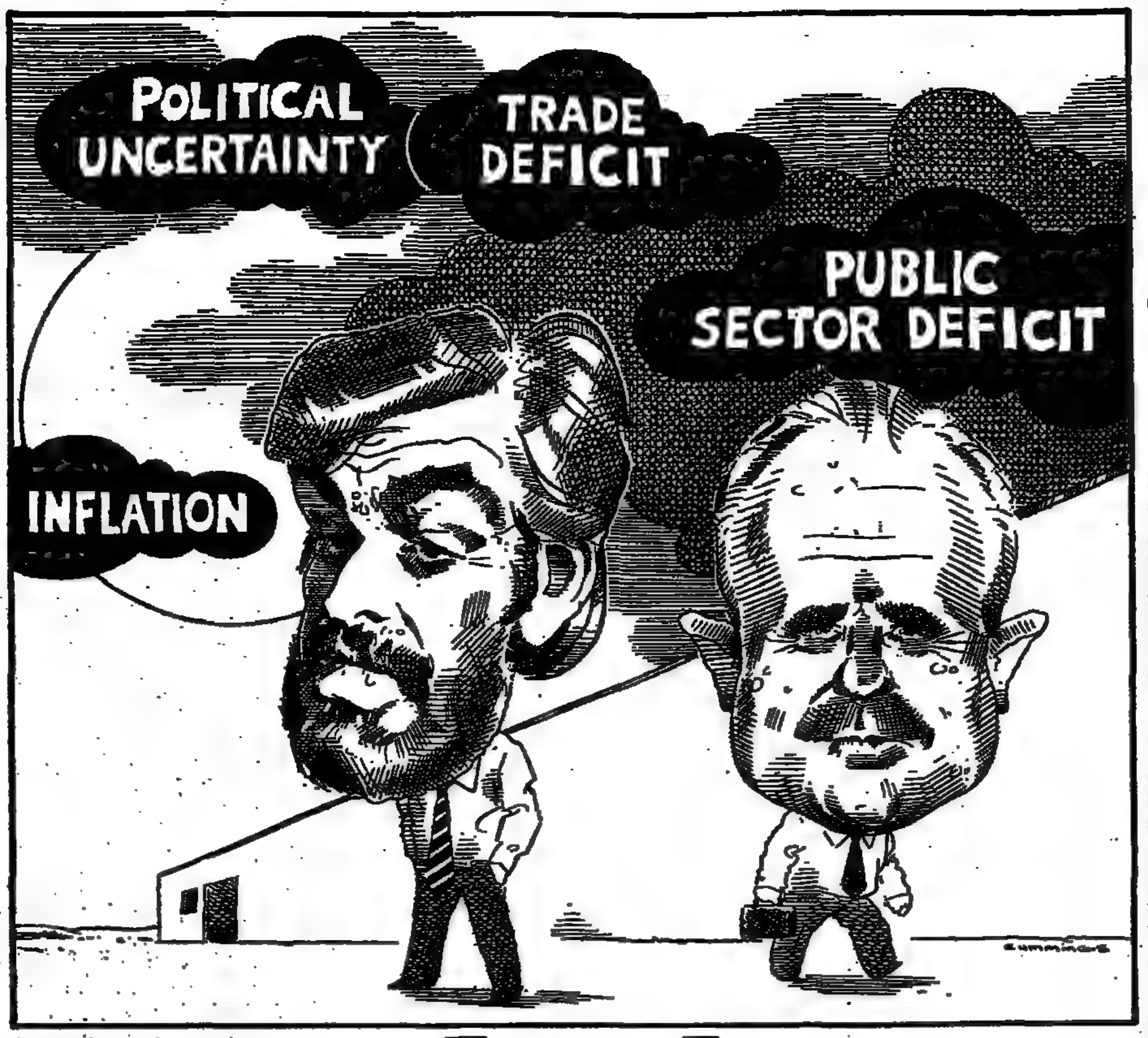
THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
Luxembourg

SECTION III

FINANCIAL TIMES SURVEY

Italy has undergone an economic renaissance in the last few years. The financial system is modernising, albeit slowly. Now, however, problems such as runaway public spending threaten the short-term outlook, as Alan Friedman reports here.

Clouds on the horizon



□ **Prime Minister Giovanni Goria, (left), has had a rough time with his Government's budget proposals. Meanwhile, Mr Carlo Azeglio Ciampi (right), Governor of the Bank of Italy, has warned of rising inflation.**

Italy
ECONOMY AND FINANCE

CONTENTS

IN RECENT YEARS it has become the vogue in international financial circles to speak of the renaissance of the Italian economy, and with good reason.

Italy has enjoyed one of the fastest GDP growth rates in Western Europe, inflation dropped substantially in the 1983-1986 period and huge state industrial concerns such as IRI and ENI began to bring their losses under control, and last year even turned in small profits. The country's private sector industrial concerns, meanwhile, have been reaping the profits of major restructuring and cost reductions.

At the same time the Milan bourse went through a boom in 1985-86 that not only saw significant growth in the overall market capitalisation and number of quoted shares, but for the first time provided companies with a cheap alternative to expensive bank debt. Italian entrepreneurs then went abroad and made acquisitions and joint ventures that gained the enthusiastic attention of investors in Wall Street, Tokyo and the City of London.

The pace of deregulation in the financial markets and on the sticky question of exchange controls *quickened* and even the previously lethargic and predominantly state-controlled banking system showed signs of learning *the merits of competition.* And during the three-and-a-half years of the Craxi government Italy appeared to have almost discovered the virtues of something like political stability.

Now there are clouds on the horizon, and while several of the economy's fundamentals still look reasonably encouraging, it is clear that the next 12 months will be increasingly difficult for the public and private sectors, for the stock exchange, for the banks, and, as a result, for Italy's recently earned reputation as a more serious player in the big league of the world economy.

It is not just the obvious weakness and confusion of the fragile five-party coalition government of Prime Minister Giovanni Goria that makes Italy-watchers scratch their heads and wonder whether the discovery of a 'New Italy' might have been a trifle premature. Politics, however, does play an important, even pervasive, role in the life of the national economy, and during the Craxi years it became clear that strong leadership, such as that seen in the slashing of the *scala mobile* wage indexation system in 1984, could make something of a difference, as much in psychological as in material terms.

As for the Italian macro-economic outlook, the GDP growth rate (see table) does not look bad. Official forecasts are higher, but even so the projection of private economists of growth of 2.8 per cent this year and perhaps 2.5 per cent is reasonable enough. The big worries concern first and foremost the country's runaway public spending and huge deficit, then the negative impact on the trade balance of both rising energy prices (Italy is 80 per cent dependent on imported energy) and the comatose US dollar, and last, but by no means least, clear signs of rising *inflation* and an upward tendency in interest rates.

The above elements are the principal storm clouds on the Italian economic horizon. Taken on their own they need not mean that Italy is about to suffer greatly - the North and centre of the country are still growth regions which may fairly be called the sunbelt of Europe. But in the global context of potential recession, stagnant trade and volatile financial and currency markets the Italian economy's habitual vulnerability risks being accentuated. Ironically enough, some of the measures adopted to open up the Italian economy in recent years could now make it more exposed to a downturn. The traditional problem of Rome's coalition parties being unwilling or unable to cut public spending is no longer a matter to be shrugged off. Top bankers such as Enrico Braggiotti of Banca Commerciale Italiana (BCI) and Nerio Nesi of Banca Nazionale del Lavoro (BNL) agree with the alarm expressed in recent weeks by Carlo Ciampi, governor of the Bank of Italy, over the feeble 1988 budget proposal that was presented in September by the Goria government.

Mr Ciampi, while lacking political clout, has finally blown the whistle on the politicians, and in unequivocal terms. He has spoken harshly against the lack of real spending cuts contained in a 1988 budget proposal that originally would have seen the deficit rising from its 1987 level of 93 per cent of the Italian GDP to 100 per cent next year. The central bank governor went to parliament and criticised the planned increase in value added tax as being a mechanical stimulant to inflation. And in private some officials rail against the manner in which other government ministers crippled the work of Treasury Minister Giuliano Amato by introducing other tax and fiscal measures that made the original Goria government budget proposal a national embarrassment.

Last month, in an unprecedented move, the Senate budget committee simply suspended work on the budget and told the government to rewrite it. Some improvements have been made, but Italy's pork-barrel politicians are still not willing to take firm *action. The result is that Italy* will next year have to raise something like Lire 40,000bn a month to finance the 1988 PSBR and roll over existing public debt. That means that in 1988 the government needs to refinance 50 per cent of the total public debt stock, and this in turn implies increasing yields on Treasury bonds and in the level of interest rates that are already the highest in real terms in Western Europe.

Mr Nerio Nesi, chairman of BNL, points out that, "while in the wake of the crisis in equity markets the prospects in most other countries appear to be for a general decline in interest rates, in Italy we *fear* the opposite."

The likely increase in bank rates will be further spurred by the decision in September to reimpose the Italian corset or *massimale* on credit expansion. And the discount rate, which was cut by a half point to 11.5 per cent earlier this year, was raised back to 12 per cent again in September.

At the end of September the average interest paid on deposits was 6.77 per cent while the average corporate loan rate was 13.69 per cent. These seemingly high margins are unlikely to prevent an expected fall in 1987 profits of between 20 and 40 per cent for many banks. One reason is that margins are gobbled up by overheads that derive partly from overstaffing in the Italian banking system. Another factor is that the re-imposed corset will inhibit lending to industry, and this is still where banks earn much of their interest income. *Finally,* and most seriously, there will no longer be the hefty profits from securities investments that saw a near doubling of bank profits in the 1984-86 period. With the Milan bourse index down around 30 per cent on last January the banks will find themselves less happy at year-end.

Another problem for the banks, that nobody likes to talk about, is the vague and unregimented accounting treatment of problem debts. According to BNL, bad debts represented an average of 8.3 per cent of overall lending in the Italian banking system, as at last June. When calculated as a percentage of banks' capital the problem debts represented around 37.5 per cent. But there is no uniform reporting of bad debt provisions *by Italian banks, and nothing* like a 30 or 60 day rule on interest not received.

Inflation, meanwhile, was originally supposed to close 1987 at 4.5 per cent (according to government forecasts), with a similar level in 1988. "The government's inflation forecasting," as one Milan banker put it, "simply lacked credibility." Indeed, the rate is already up to 5.3 per cent and the consumer price index, according to the Bank of Italy, could well rise to six per cent by year-end.

The expectation is now that inflation could easily jump up to 6.5 per cent in the early months of 1988 before coming down again. Only the doing away of a one per cent rise in VAT contained in the first government budget proposal will have helped to prevent an even more extensive rise.

On the trade front Italian industry is now contending with a dollar so weak that its exports are less and less competitive. Internal consumer demand has increased the level of imports as well, and the country's energy bill is still rising. According to Mr Ciampi the 1987 trade deficit now looks like it will total between L12,000bn and L13,000bn against a 1986 trade deficit of L3,700bn

The level of capital outflows should double to around L3,000bn to L4bn this year, helped by the liberalisation of rules on investing abroad. And the 1987 balance of payments current account should close in balance or with only a marginal surplus, against last year's L7bn surplus.

The banking system is meanwhile preparing for a Europe-wide market in 1992, but it still has a long way to go on the harmonisation of accounting, on the mortgage front, on payment cards and on the reorganisation of credit institutions, to cite just a few examples.

And in the meantime the central bank has been pushing for legislation on the separation of banks and industry. At present it has little more than symbolic power to implement its desire to

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The economy

Concern over the budget deficit

AN IMF team came to Rome at the beginning of November to carry out a fact-finding check on the Italian economy and encountered an administration in more than normal disarray. The Government, or at least its Socialist component represented by Treasury Minister Giuliano Amato, had just decided that the budget presented little more than a month previously would no longer do and that substantial revisions were needed.

As a result, the IMF left Italy somewhat in the dark about the direction of economic policy and the assumptions underlying it. Shortly afterwards, it emerged that the Government had decided to take seriously the risks of rising inflation and slower than expected world growth, and to cut its budget cloth accordingly.

Although the national mood has moved distinctly downwards from the euphoric cloud of a year ago, it has not yet swung towards dark pessimism, and neither would it be justified in doing so. Unless, that is, the international economy takes a very serious turn for the worse under the impact of stock market corrections, currency instability and a serious downturn in the US.

The market turbulence of mid-October and early November was Mr Amato's stated justification for seeking a revision of the original budget proposals. These were based on an expected growth rate in the OECD countries of 2.5% next year and a 4 to 4.5% rise in world trade.

Any change for the worse in this estimated framework would have opened up serious cracks in a budget strategy postulated on reducing internal demand from this year's 4.5% to 3.1% but arriving, nonetheless, at a broadly similar increase in gross domestic product of 2.8%.

Since government forecasting the world over is often tinged with optimism, corrective views abound which suggest that the 1988 growth rate in Italy may be no more than 2 to 2.2%.

But even before world stock markets and the dollar began to tumble, critics of the initial budget strategy quickly focused on the contradiction between raising indirect taxes and achieving a targeted 4.5% inflation rate. The Bank of Italy was publicly sceptical about the forecast and there was more than a suspicion that the government needed such a figure to correspond to its budget deficit target of L109,500bn.

This is because much of its current expenditure is indexed to inflation and obviously susceptible to its impact. Pensions and public sector salaries, for example, are partially indexed and together with the health and debt servicing costs account for two thirds of annual current spending.

Even before the world stock markets began to tumble, critics of Italy's initial budget strategy pointed out the contradiction between raising indirect taxes and achieving a targeted 4.5 per cent inflation rate. The Bank of Italy was publicly sceptical about the forecast. There was also suspicion that the Government needed such a figure to correspond to its budget deficit target of L109,500bn

The impact of rising inflation on servicing more than L900,000bn of government debt accounts could be particularly upsetting. Italian interest rates - already the highest in real terms in the European Community - would be bound to rise and with them the burden of debt payments.

The government's revised budget abandoned the earlier plans to raise most VAT rates by one percentage point, despite the accompanying loss of L3,000bn of revenue. It was calculated that the higher rates would add up to 0.6 percentage points to an inflation rate which, disturbingly, had risen to an annual rate of 5.3% in October.

The budget deficit target was also brought down to around L104,000, partly by postponing adjustments to income tax rates for middle and low incomes and halving planned reductions in companies' social security payments.

As a declaration of determination after a period of fumble and apparent lack of direction, Ministers also talked about a supplementary budget in 1988 which might aim to reduce the deficit still further, to L100,000bn.

It has to be said that the Italian political class is currently providing a fairly dismal management of public finances. In 1986 public spending was 6.8 times higher than in 1976 (the cost of living was 3.8 times higher) and by the autumn total public debt had climbed to 93% of GDP, compared to 46.9% in the UK and 18.5% in France.

Lax financial administration, the costly trade-offs which oil the wheels of coalition politics and a parliamentary indiscipline on spending matters as on so much else, means that Italian governments have enormous problems hitting their spending targets.

In 1986, there were some hopes that a corner had been turned when the budget deficit was smaller in nominal terms than the year before and declined from 13.7% to 12.1% of GDP. But plans went considerably awry this year: the deficit target of L100,000bn was obviously unattainable by mid-year and a special L3,500bn revenue-raising package was needed in late August to hold the deficit just under 110,000bn.

This burden, and the need to raise L40,000bn a month next year to fund the deficit and roll over existing debt leaves the Bank of Italy with little room for manoeuvre on domestic interest rates. It managed to cut the discount rate from 12% to 11.5% after the January devaluation of the lira in a European Monetary System re-alignment, but was then forced to return to 12% in September after a run on the currency.

Noticeably, the Bank had not by early November felt able to follow several other European capitals in cutting key rates.

A credible 1988 budget which both pegged the deficit at current levels and was at least neutral for inflation would, at least, offer the prospect of stable interest rates. However, the state of the lira is a further complication to forecasting on this front.

Currency market operators have been disturbed by the deterioration in the Italian trading position this year which has seen imports, fuelled by strong domestic demand, rise by around 7% and exports struggling for a minimal 0.2% increase. The explanation lies in an erosion of competitiveness in national currency terms because unit labour costs have risen faster in Italy than in its main trading partners and also because of exchange rate variations.

According to the Bank of Italy wholesale price competitiveness fell by around 4.1% in the first half of the year, largely because of appreciation against the dollar. The merchandise trade surplus with the US fell from L3,071bn in the first half of 1986 to L2,286bn in the first six months of this year while the deficit with EC countries rose from L3,735bn to L5,506bn.

The Bank is forecasting a small surplus on the current account this year of 0.1% of GDP and a deficit in 1988 of 0.2%.

This is the rather eloquent background to the insistent calls from Italian business for an incomes policy. Thanks to generous three-year pay deals with an important element of backdating, public sector pay rises have averaged about 12% this year and 8% in the private sector.

The OECD says that this is likely to have increased industry's unit labour costs in 1987 by more than the 3.3% rise registered last year, but cost pressure should be less in 1988 because increases in the total wage bill will be largely attributable to wage indexation.

Against this background, research continues to reveal that industrial investment remains primarily directed at labour-saving rather than enlarging capacity. Istat, the Italian statistical institute says, that companies employing more than 500 people reduced their payrolls by 3.9% between January and August this year compared to the same period in 1986.

In July, some 2.87m people were seeking work, the highest total since 1958, and representing an unemployment rate of 11.9% compared to 11.2% the year before. However, if the fall in the numbers on state subsidised lay-off is taken into account, the increase runs more modestly from 12.5% to 12.8%.

As elsewhere, the unemployment phenomenon reflect a high rate of jobless among the under 30 age group and significant increases in the numbers of women seeking work. The purely Italian phenomenon is that the rate is static or even falling in the north (7.9%) and centre of the country (9.7%) but rising in the south where it now approaches 20%.

Indeed, the southern problem is compounded not just by new entrants to the labour market but by reductions in employment in industry and agriculture which are not being offset by new jobs in the services sector.

John Wyles

Rome

Giuliano Amato, Treasury Minister and Deputy Premier: he has argued for more rigour in containing public spending. (See interview on page four: a burning concern for reforms).

The phenomenon of 'Il Sorpasso'

The statisticians remain coy

FOR THE Roman taxidriver or the man on the Milanese tram, the *sorpasso* is an accomplished fact. Italy has displaced Britain as the fifth-richest country in the free world, behind the US, Japan, West Germany and France.

Italians who travel abroad and foreign visitors to urban Italy have no difficulty believing this to be an economic truth. The evidence is plain to see, in the designer fashion boutiques, jewellery shops and furniture stores, and in the price of almost everything from fish fillets to deodorant.

Italians who do not travel may find it harder to swallow. But they believe it anyway as a matter of national pride.

The news was broadcast in January by Mr. Giovanni Goria, then Treasury Minister and now Prime Minister, that Italy would overtake Britain during 1987.

Looking back on the excitement that followed, some people now regard the *sorpasso* ("overtaking") as merely a touch of spring fever, spread by the then Craxi government to encourage favourable notices for its record span of office.

But has it really happened? The statisticians, on whose figures the claim must ultimately rest, are coy.

Prof. Guido Rey, president of the Italian central statistical office, Istat, and professor of political economy at Rome university, said: "I don't know what the present position is. I have always refused to have any idea, because I know from experience how difficult these kinds of international comparison are."

Britain's National Institute for Economic and Social Research seems to have started the ball rolling with a report last November that living standards in Italy would soon overtake Britain's, based on projections of the past ten years of each country's growth rate.

However, the report's authors were not able to base their comparisons on purchasing power parities, a measure that irons out the distorting effects of market exchange rates.

In February, the British Chancellor told Parliament that the UK's recent growth rate was double Italy's, that its economy 14 per cent larger and its living standards 15 per cent higher, based on 1986 data.

The OECD's survey of Italy, published in August this year, gave the country a gross domestic product of $599.8bn in 1986, ahead of the UK's $547.4bn. An official said that the gap would probably be even wider in terms of purchasing-power parities.

However, the European Commission's latest index of GDP at current prices and purchasing power *per capita* has Britain a shade ahead last year and this, forecasting a tie for next year. Paradoxically, it also shows Italy ahead of the UK in the first years of the decade.

Statistics, as has often been observed, can tell imprecise truths or precise lies. Which version you accept depends on your motive for using them. In this case, any verdict must take account of the fact that Italy has from this year been using a brand new set of figures, which revalued the 1982 GDP by 15.9 per cent - and the years before and after by similar amounts.

Everyone knows, or claims to know, that Italy's "black economy" is the biggest in the western world: figures as high as 25 per cent of GDP have been bandied about. But less than half the revaluation, says Istat, is due to "capturing" in figures more of the hidden economy. Most of it is the result of better counting of what was already in view.

Last month, Istat described the revaluation as "an act of recovery of the national statistical system" which it said had been eroded by profound transformations in the economy, an economy which is particularly hard to measure because of the large number of small and medium-sized companies.

What this means is that the statisticians are at last getting to grips with a phenomenon that is obvious to even the most innumerate visitor: Italian enterprise is still very much a private, family affair. It thrives in spite of the state.

Britons discomfited by *il sorpasso* may find it ironical that the revaluation was based on the recommendations of a commission headed by Sir Claus Moser, former head of the UK's own Central Statistical Office, and appointed by the Italian government.

Istat used the findings of two national censuses, in 1981 and 1982, and special surveys to cross-check the normal reports. For example, households were quizzed about their spending on holidays, sport, meals out and home improvements.

They were asked about their rent for summer cottages and ski-ing chalets, a boom business during the Seventies. Every contribution to the economy, apart from that made by criminals, was to be examined.

Many "new" workers were discovered: unlicensed undertakers, industrial trainees, illegal aliens, babysitters, not to mention the millions of people who still take time off from the factory to cultivate their family small-holdings at sowing and reaping time.

As Prof. Rey explained, it was impossible to count all these hidden workers as holding jobs. Istat therefore used another measure, the standard unit of labour (a recognised yardstick though not commonly employed elsewhere) to develop a a picture of the actual amount of output.

As a result the value of agriculture, energy and public administration was raised a modest

Continued on page 4

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An interview with the Treasury Minister, Giuliano Amato

A burning concern for reforms

OF THE new generation of men in their forties - a rising female star is still awaited - who have made their mark in Italian politics over the last five years, the emergence of Giuliano Amato, the Treasury Minister, is probably the most interesting.

While neither his intellectual qualities nor his prodigious appetite for work can be disputed, he owes his present eminence to one man, Bettino Craxi, the Socialist party leader. Although Amato had previously been an astringent critic of his style of leadership, Craxi installed him as his under-secretary as soon as he became Prime Minister in 1983.

In the succeeding four years, the 48-year-old Tuscan who, like Craxi is partly of Sicilian parentage, became arguably the second most effective member of the government after Craxi himself. As a counsellor, as an organiser, as a mediator between ministers and as a drafter of legislation, Amato emerged as a highly skilled "man of government" who in the forseeable future looks likely to occupy top positions for as long as the Socialists are part of the executive.

He is slight in stature with a quick smile and an open, penetrating gaze. His answers to questions, given in English honed as an academic in the US, sometimes take refuge in a feather-light use of irony.

Many months before taking over at the Treasury at the end of July, Amato said in a magazine interview that he would view any prospect of going to the Treasury as "terrifying." Was it proving to be so in practice, I asked?

"It is terrifying in some ways to be the only responsible minister of overall fiscal policy of your cabinet while you don't have powers relating to this responsibility. For some of the issues I for which I am held liable, I must plead 'not guilty' because we have three ministers having to do with fiscal policy - ministers of the Treasury, Budget and Finance. I accept the system, even though it is not rational at all."

Very few politicians other than Amato would have given such an answer because not many share his burning concern to reform the Italian system of government. As a professor of law and political science at Rome University until his election in 1983, he had frequently written of the need for political change and part of his purpose in government is to achieve it.

His current discomforts are borne of having to impose an emergency credit squeeze at the end of August and then cajole his colleagues to revise the 1988 budget proposal in November, a little more than a month after the original was adopted.

The purpose of the first draft was to cut the underlying budget deficit in 1988 from a record L128,000bn to an actual L109,500bn. It sought to do so by raising around L10,000 in new taxation and L8,000bn in economies. From the first,there were strong doubts among many analysts about the overall strategy.

The Bank of Italy feared that increases in VAT rates and other charges would make the government's 4.5pc inflation rate unattainable. Others doubted whether the savings were all real ones and, such as they were, whether Amato and his colleagues could preserve them during a parliamentary process which gives excessive scope for amendment and special interest lobbying.

Amato hints at having his own doubts about the credibility of this first draft. What he did at the beginning of this month was to sieze on the turbulence of international equity and financial markets as good reason for requiring greater austerity.

As a result of the revision exercise, the deficit target has been brought down to around L105,000bn. Nonetheless, Amato denies that the government got its strategy wrong the first time around.

"We have to take account of the fact that changes in the scenario since September mean that the prospects of a growth in output and world trade are not as strong as they were,"he says.

"The revised budget has to enable us to safeguard stable growth in our own economy, even in the face of recessionary pressures, which could come from abroad, and against the background of great instability in currency and financial markets."

But as many of his predecessors have discovered, it is one thing to table a budget and the accompanying legislation aiming at economies, and quite another and quite another to secure parliamentary backing.

His problem, as he stressed, is that current laws require that reforms of the health and pensions systems which can produce real savings have to be presented as legislation separate from the budget. Amato appears dubious "that these procedures, with the two houses of parliament doubling up on each other, are capable of introducing the necessary reforms quickly enough. From my point of view, time is money."

Is part of his purpose, then, to demonstrate the inadequacy of the institutions to deal with the nation's most pressing economic problem, its public deficit?

"My answer is yes, but not in such a way as to refuse to accept my responsibilities and to say this was my problem and now it is yours."

He will then, fight for his proposals -"I am perfectly aware that if my deficit becomes L120,000bn, then I am dead," he says laconically.

The public deficit is a "sickness" which he says certainly restricts his freedom of manoeuvre to stimulate the economy, if necessary, by reducing interest rates. He acknowledges the need for a new medium-term plan for the deficit. The one operated by his predecessor, the current Christian Democratic prime minister, Mr Giovanni Goria, has become worthless since it was predicated on a L90,000bn deficit next year - "I myself feel the necessity of knowing where I go from here..." he says.

The five-party coalition of which he is Deputy Prime Minister, is clearly not under-pinned by the same strength of commitment which bound together the two previous Craxi governments. Will this be a handicap in pushing the budget through parliament?

"Yes, the members of the Craxi governments felt links of loyalty much more than they do now. As you know not a single party leader is in this government. I have often thought there could be advantages in that, but not at this time."

For the moment, he claims the Italian economy is in reasonable health and no more liable to suffer worse consequences from a recession than any other - "I would not bet on any western economy more than the Italian. It has succeeded in past years when success looked unlikely."

Amato is the first Socialist Treasury Minister in any post-war Italian government and many observers are still wondering what the policy implications will be, if any.

"Craxi has given us pragmatism and I am very pragmatic. I have shown I was ready to increase interest rates if necessary. But I am not ready to penalise as much as I can the Italian economy and Italian development because of my financial problems. There is a bias towards development and employment as my main goals," he says.

John Wyles

Differing views on 'Il Sorpasso'

Continued from page 2

0.7 per cent; second homes added another 1 per cent; "hidden" workers accounted for another 4.6 per cent of the GDP increase and better measurement of visible output 2 per cent. Small businesses were found to be underdeclaring by 2.6 per cent, while the refinement of statistics on small firms' accounts and on leisure and home improvement spending added a full 5 per cent.

How much will this heightened awareness of what is happening in the Italian economy influence policy. Prof. Rey says the most likely consequence will be to reinforce the politicians' new-found enthusiasm for shifting the fiscal burden from direct to indirect taxes.

"Italian politicians don't much like to take account of statistics when making their decisions. They work more on discussion, anticipation and on people's expectations. We don't traditionally have a culture of quantitative reasoning. We argue more like lawyers."

Nor is there much sign that Italy - when and if the *sorpasso* becomes incontrovertible fact - will be allowed to oust Britain from the inner club of five industrial nations who try to co-ordinate macroeconomic policy on the world's behalf. Britain claims its Group of Five membership on the strength of sterling's role in the world economy, not merely the size of its own GDP.

Nevertheless,it may be harder from now on for the G5 to justify its caucus meetings. Already, indeed, it is the wider Group of Seven including Italy and Canada that puts out the communiques.

For all but a few sensitive Italian politicians, it hardly matters. What matters to the Italians is that they can now brandish hard evidence of their post-war economic success. The rest of us had better recognise it.

Christian Tyler

The stock market

Time of uncertainty for the Milan Bourse

WHEN WALL Street crashed and Milan set off after it, some Italian stockbrokers proudly observed that their exchange was at last paying attention to events in the big world outside. It was, they said, another sign that the *Borsa* was growing up.

Fortunately, perhaps, the Milan market had already peaked, way back in May last year. Otherwise who knows what hysterics might have been seen at the Piazza degli Affari in the first days of the Big Correction.

As it was, the small domestic market stood up reasonably well to events in New York and London. But the crash had one important side-effect: it strengthened the determination of Italy's comfortable stockbrokers to resist anything like a Big Bang reform of their exchange - "What happened there, didn't happen here," they said, "because, in our old-fashioned trading system, it couldn't."

One casualty of last month's events, therefore, could turn out to be the reform programme urged on the government earlier this year by the Rome-based regulatory authority, Consob. This programme is intended to bring order and technical sophistication to a market which has grown very rapidly but which retains many of the structural vices of its casino past.

In the last five years, capitalisation and turnover of the Milan exchange have increased four or fivefold. Mutual funds, created three years ago by law, have added some $50bn of savers' money to the board. The exchange has seen a flood of new issues as industry restructured and went to the market to wipe off its bank debt.

Foreigners came hunting for bargains, and although many went away again after the boom, they left behind a market representing some 13 per cent of the value of all European bourses. According to one broker who specialises in the area on behalf of Sigeco, the broking arm of IMI, foreign investors still feel bound to keep some part of their portfolio in Italy. He also says they enjoy the political stability: "What looks like a change of government here is really only a Cabinet reshuffle."

For all its growth, the exchange is still small. There are only 200 or so quoted companies and only a dozen are actively traded. No foreign shares are listed. Most of the big companies are majority-owned or controlled by individuals and families extraordinarily reluctant to float their enterprises off. The only blue chip that could be called a public company in the English sense is Generali, the international insurance company based in Trieste, in which no single holding is bigger than 10 per cent.

The various holdings of the Agnelli family, for example, have a combined capitalisation equal to nearly 23 per cent of the entire stock market. The state controls a third of the listed companies.

"Until five years ago no-one would have dreamed of going public because the stock exchange was a joke," says Mr. Paolo Azzoni, a stockbroker with Albertini partnership. "On the political level we are a very advanced democracy. But on the economic side we are a long way from it."

The result is that investors on the Milan bourse are being asked to accept far more risk in exchange for too little control. For instance, many small investors were persuaded to take up non-voting "saver" shares, which enabled companies to raise cash but diluted the stock without really diluting ownership. Ignored by the institutions, the saver shares sagged and dividends had to be raised to appease a grumbling public.

As it is, dividend yields generally are minimal ("accidental", as broker Mr. Franco Aletti put it), reinforcing Milan's reputation as an occasionally exciting but not really serious equity market.

The exchange also suffers from a lack of liquidity, in spite of a spate of new issues and the promise of several major privatisations. For example, most unit trusts, according to Mr. Azzoni, are over-invested in Fiat shares, exceeding the 5 per cent limit per portfolio laid down by the Bank of Italy. The liquidity problem may be overcome as the new merchant banks set about bringing to the market some of the 1,800 medium-sized companies that research by the state credit institute IMI shows are ready to go public.

The chief functional problem of the Milan exchange - settlement delays - that helped drive foreign investors away is gradually being overcome. According to Mr. Attilio Ventura, vice-president of the Exchange, the volume of unprocessed deals has been cut from L1,000bn nine months ago to L300bn today. Over 60 per cent of the shares in circulation eligible for inclusion in the central register, Monte Titoli, are now in the system, he said.

The regulatory authority Consob has devised a blueprint for both modernising the exchange and regulating the market as a whole. In place of the present auction trading system, where stocks are bought and sold around a daily "fix", it envisages a continuous, screen-based auction for equities linking the ten Italian exehanges. Once the ownership of the system is agreed, the software can be introduced.

Consob describes the task as one of defining investment businesses in order to have the means of regulating them, and then to define the new entities entitled to trade. It sees the equities market operating on a continous auction basis, gilts on a dealer basis and block transactions being handled directly by brokers.

Established brokers, fearful that the new securities houses would be dominated by the banks, argue that the notion of continous auction is misplaced: it would become a dealer market of the kind that has proved so volatile in London and New York. They say that a dealer system is only supportable in a big, liquid market populated by powerful players and restrained by strong rules for the protection of the investor: all things that Italy still lacks.

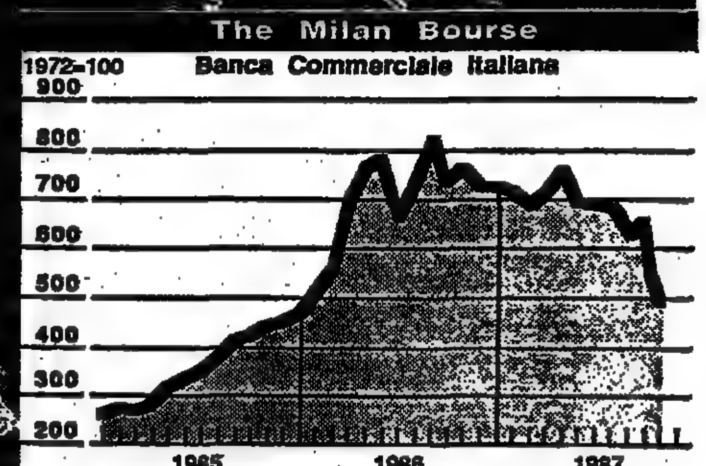
Consob officials realise that their proposals, although designed as a compromise, are unpopular with the vested interests and may be left on the shelf by a government too insecure to legislate.

Dr. Giuseppe Zadra, director of Consob's markets department, said: "We have problems of price quality - including insider trading - and we have technical problems. We feel our market structure is very weak and if we don't change it by 1992 (when all EEC controls on capital movements are due to be abolished) we will find ourselves taken over by foreign institutions.

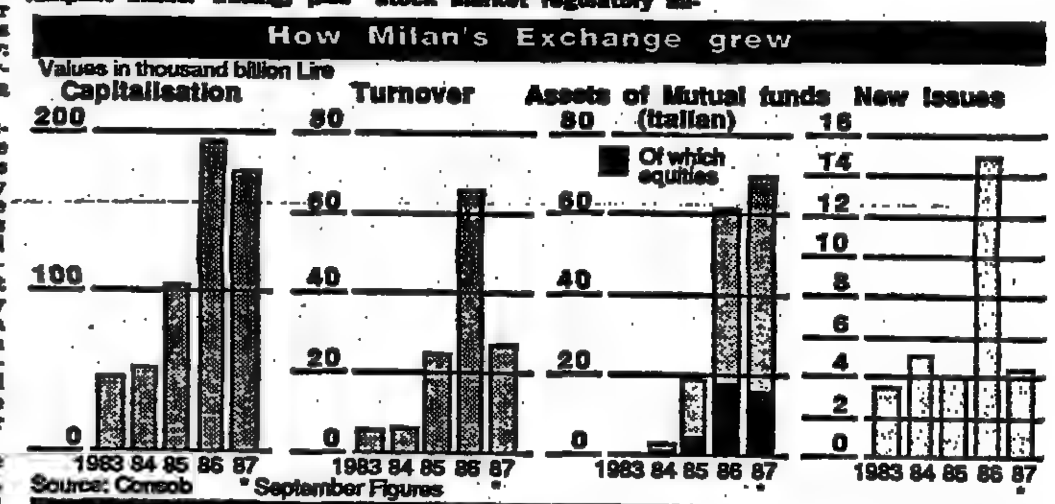
"But I don't think there is a very strong feeling here that we stand to lose anything".

More important than stock market reform, many would argue, is the modernisation of Italy's feudal business customs: the priorities are to enact an anti-trust law, such as that being drafted by Senator Guido Rossi, a former Consob chairman, to reform takeover procedures, to outlaw insider trading. Only then would it be worth worrying about the structure and operation of the Borsa. Mr. Aletti said: "It's like a putting up a new building. You don't start with the roof".

Christian Tyler



Above: the floor of the Milan Stock Exchange. The market has grown significantly in recent years, but it still faces a number of problems such as rampant insider trading, plus the concentration of most trading in fewer than 40 shares and a struggle for dealing rights between banks and stock brokers. The Consob stock market regulatory authority also remains concerned that around 50 per cent of all share transactions take place away from the Stock Exchange.



The Bank of Italy

Reputation for independence

ITALIAN POLITICAL parties have such a rampant appetite for parcelling out among themselves the top jobs in state companies and institutions that it remains a source of some amazement to discover one key body that has been left untouched. The Bank of Italy's exclusion from what is *known as the sottogoverno* is not easily explained, but it has a lot to do with the quality of the men who have governed it since the war and the Bank's own internal procedures and culture.

Men such as Luigi Einaudi (1944-48) who went on to become President of Italy, and Guido Carli (1960 -1975) combined a keen awareness of the need for a politically independent central bank with the ability to ensure that its staff observed the necessary disciplines. "We have always tended to reward technical excellence rather than political perceptions," says one senior official.

The reputation which the Bank has built up over the years for political independence and intellectual rigour is the essential underpinning for the role of public gadfly which has to be assumed by its governor. On at least two or three set-piece occasions each year, he must point up the errors and failings in economic policies which frequently result from the rapid turnover of governments and the sometimes profligate trading between coalition parties.

The tradition of appointing governors, and sometimes their deputies, from outside the Bank was broken with the nomination of Paolo Baffi in 1975. His successor, the present governor Carlo Azeglio Ciampi, is also a domestic product and since the outgoing governor's recommendation of a successor tends to be the determining factor, few believe that outsiders will again fill the top slot in the forseeable future.

In contrast to the 47 governments which have swung in and out of office since the war, the Bank has had a mere five governors. They are appointed for life and are, therefore, free from the dangers of political retribution.

Any Italian government's role in determining the top management is largely formal. It is required to ratify the appointments of the Governor, his deputy who is known as the director general, and of the deputy's two deputies. These four - the directorium - are all appointed by the Bank's *consiglio superiore* which is made up of 13 prominent and independent people drawn from 13 Italian towns and cities. Since the Bank is a public company, its shareholders - financial institutions and large savings banks - appoint the *consiglio superiore*.

In practice, these formal structures have served well to insulate the bank from political interference. But clearly politics and relations with the government of the day impinge on the running of the Bank. It reports to the Treasury Minister and the inter-ministerial committee for credit and savings on all policy matters for which the Governor alone is nominally responsible.

In the absence of a board of directors with policy responsibilities, the Governor enjoys a remarkable independence in comparison with, say, the Governor of the West German Bundesbank. In matters of banking supervision and regulation, monetary policy and currency management Governor Ciampi could, if he wished, exercise near-dictatorial powers of decision-making.

In practice, most decisions are taking collegially by the directorium after an extraordinarily flexible and informal fashion. The four men are served by a secretariat and three of them can sign all official documents and communications with the same authority as the governor.

The four almost never hold formal meetings. Their offices sit side-by-side in the elegant southern wing of the Bank's *palazzo* on Rome's Via Nazionale and there is a regular flitting from one suite to another for consultations. Although each of the four has separate spheres of responsibility, all documents requiring a decision are submitted in quadruplicate and none is cleared until the three managers not directly involved have had the opportunity to comment or intervene.

Governor Ciampi: he has worked hard to protect the central bank's autonomy and has complained for years about Italy's public sector deficit.

Since the governor frequently has determining influence over the choice of his deputy and the directorium as a whole effectively selects a new deputy director general, there is a danger, acknowledged within the Bank, of in-breeding. However, intellectual merit has long been the prime consideration in the Bank's overall recruitment policy and it is said that this ensures a diversity of background and experience within the directorium.

It also protects the immense respect the bank enjoys within Italy and abroad for the quality of its people and work. Just as overt political connections are discouraged among its managerial staff, so also is dogmatic commitment to any particular school of economic theory. Its leading managers, from the governor downwards, have in recent years embraced monetary targets, a managed exchange rate target (through membership of the European Montary System) and nominal gross domestic product forecasting, but always pragmatically and mostly from intellectual conviction.

Within the Bank, it is freely acknowledged that mistakes are sometimes made of judgement and policy, although the present generation of managers reach back to the 1960s and 1970s for examples. They believe, for example, that the strong efforts now being made to encourage banking deregulation and enhanced competition are a necessary compensation for a regrettably late start.

John Wyles

Bank's top men

THE CURRENT directorium which runs the Bank of Italy contains a wide mix of domestic and international experience. Governor Ciampi entered the Bank in 1946 after three years service in the Italian army. Now 67, he was appointed in 1979 after a career which had taken him through various departments including a spell as head of research, a frequent springboard to the top in the bank.

Born in Livorno, a graduate of the University of Pisa with a diploma from its highly prestigious Scuola Normale Superiore, Governor Ciampi is often more elliptical in his attempts to lecture governments than some of his predecessors, but within the Bank he is highly respected for his toughness and political acumen.

His deputy, Lamberto Dini, 56, had spent most of his career in the US before becoming director general in October 1979. A "summa cum laude" graduate at the University of Florence, he completed post-graduate studies at the Universities of Michigan and Minnesota and collected a string of scholarships; including a Fulbright and a Ford Foundation Research fellowship.

He was an executive director of the IMF between 1976 and 1980 and his many international responsibilities include the vice-presidency of the EC's monetary committee and being Italy's alternate governor at the IMF and the Inter-American development Bank.

Antonio Fazio, 51, was made deputy director general in 1982, having been the Bank's central manager for economic research and, before that, head of research department for six years. Another "summa cum laude" graduate (University of Rome), he is a specialist in monetary policies and a prolific author of articles on this and other themes.

Tommaso Padoa-Schioppa, 47, is the newest recruit to the directorium, having arrived in June 1984 after a year as director for economic research. In the four years from 1979, he was the European Commission's director-general for economic affairs. Also a "summa cum laude" - in economics from Milan's prestigious Bocconi University - his range includes econometrics, monetary theory and the banking system.

John Wyles

Bocconi University

Training Italy's managers

THE ENTREPRENEURIAL spirit of Milan's Bocconi University - a highly competitive and elite private training ground that aspires to be Italy's version of the Harvard Business School, is apparent from top to bottom.

At the top there is 60-year-old Professor Luigi Guattri, the "Magnificent Rector" of the university, a short and grey-haired bulldog of a man who as a former marketing instructor certainly knows how to market himself: he not only runs the university, with its 10,000 students, 533 professors, seven institutes and 20 specialist research centres, but finds the time to have accepted directorships on the boards of no fewer than 40 companies.

Prof.Luigi Guattri: directorships with 40 companies.

At the bottom are the students, all of them paying tuition which is extremely expensive compared to Italian state universities, all of them having sat a difficult entrance exam that rejects two out of every three applicants.

At the rather drab Bocconi campus, the atmosphere is serious and austere. Students dress in the jacket and grey flannel garb of Italian business executives. They are an earnest and hard-nosed lot, almost to a man (or woman), rushing around classes with a salmon-coloured copy of Il Sole 24 Ore,(the Italian imitation of the Financial Times), tucked under an arm. And they take themselves, and Bocconi, very seriously.

Bocconi, by general consensus, is Italy's best business school and what is taught is more than just economic theory. Bocconi teaches the profit motive, ambitions and the almost-relgious value of management capability.

Bocconi students see themselves as being a "cut above," and even Professor Guattri admits that this "presumption" may be getting out of hand - "They feel that upon graduating they have automatically the right to a well-paid career. And given the buoyant state of Italian industry and finance in recent years, it is true that Bocconi graduates do not suffer from unemployment."

Bocconi graduates justify the intense competition at the university, where they must be fluent in two foreign languages, sit for eight exams a year and contend with so much stress that 60 per cent of those enrolled do not make it through to graduation. Professor Guattri says the Bocconi graduate "is happy to have gone through a tough time and to have learned a method of thinking and working that *is* serious and *highly* disciplined."

The students, says the professor, (who is also the author of dozens of business books), "are trained to work hard and face problems with methodology." And the companies that hire Bocconi graduates, *and these include* every one of Italy's most famous industrial and banking names,"tend to like the profit mentality of Bocconi," according to Prof Guattri.

The courses at Bocconi include a four-year undergraduate economics programme with 32 examinations, a four-year programme in business administration (also 32 exams) and a five- year programme in economics and social sciences (with 27 exams).

There are also graduate courses in statistical and operational research, labour and industrial economics, international economics and monetary economics. The best-known faculty member at Bocconi is Professor Mario Monti, who ranks as one of Italy's leading economists.

Prof. Monti, an amiable 44-year-old who has participated in various quasi governmental studies of the banking system, is a prolific writer of economic commentaries for the Corriere della Sera, a tireless organiser of conferences that bring to Bocconi the nation's top central bankers, industrialists and financiers, and of course a man with a hand in the real world of commerce and banking himself in short, the quintessential Bocconiano.

Prof Monti is chief econom*ic adviser to the Milan-based* Banca Commerciale Italiana (BCI), Italy's second biggest commercial bank, and he recently was elected to the bank's executive committee as well. And his utterances on national monetary policy tend to command the attention of authorities and bankers up and down the Italian peninsular.

As for Prof Guattri, he manages to find time away from Bocconi to do work with Pirelli, Montedison, Gemina, Credito Varesino, Honeywell, plus another three dozen companies.

"He is very, very busy," confides an aide.

Alan Friedman

Retail banking: shortcomings in service and efficiency

Wry smiles from customers

"BANCA COMMERCIALE is an awful bank. It seems impossible to get decent service," remarked a disgruntled foreign customer. But her unhappy experiences at the hands of one of Italy's biggest and best-known banks are not unusual. A random poll at Banca Commerciale Italiana's branches in the capital might reveal a substantial proportion of customers who are not satisfied with the services for which they are paying.

Customers would probably smile wryly if Banca Commerciale Italiana were to borrow the advertising theme used by a major British bank, and publicise itself as "the listening bank." The unhelpful indifference of *menefreghismo* (don't give a damn) often appears to be the style of staff in the capital's branches. The costs of errors caused by carelessness are charged, either directly or indirectly, to the customer.

"Tutte le banche sono ladre," remarked a customer. (All banks are thieves.) Indeed, Banca Commerciale Italiana is not alone in causing irritation on the customer's side of the counter. Displays of annoyance, sometimes rising to anger, are commonplace at the Rome branches of many of Italy's large banks, as customers struggle to be served.

At peak times of the month, as customers throng the banks and create scenes of chaos and confusion, the branches seem to resemble the visions of hell painted by Renaissance artists. Certainly Latin aversion to queues does nothing to help the customer, but banks could improve matters by organising branch space and service methods rationally.

If the service is so bad, why not change branches or even bank? Unfortunately, switching branches is no guarantee of getting something better. A senior officer of one of the savings banks' central institutions has twice changed branches at one of the country's biggest savings banks. "They are equally bad," he complains.

Indeed, behind the apparent wealth of choice offered by 1,100 different Italian credit institutions, real consumer choice is quite modest. The truly national banks can be counted on the fingers of one hand, so this tends to reduce the options.

Mr Piero Barucci was elected to head the Italian banking association ABI in June. He therefore stands in the frontline of those charged with defending the system. He is also chairman of the world's oldest bank, the Monte dei Paschi di Siena, and so has first-hand experience of being at the sharp end. "There is not a country in the world where people do not complain about banks," says Mr Barucci.

He admits that Italian banks probably employ too many people. Many customers would agree with ABI's chairman. While they queue for service, they have the opportunity of counting the regiments of clerks in the branches' open plan back offices, which are now standard in Italy. "With current levels of employment, banks can widen their services," notes Mr Barucci. However, most customers would be grateful for improvements in the efficiency of banks' present operations.

Mr Barucci refutes accusations that Italian bank staff lack professionalism. Many senior bankers are, however, prepared to admit that personnel poses the biggest problem to bank management in Italy. They recognise that there are weaknesses at all levels, from the highest ranks of executives down to the lowest grades of bank clerk. The absence of real competition in the banking system and the brakes imposed by oppressive bureaucratic procedures have acted as a depressant on managerial initiative. Bank clerks are not service-oriented because they have taken the example of their superiors.

But staffing appears to pose an intractable problem. The significant reduction of income differentials over the past 10 years has eroded the attractiveness of bank employment. Bank staff complain about having lost much ground relative to other categories. They have suffered a slippage in status.

At a time when top management is increasingly aware of the need to improve levels of service, the conditions to do so are not favourable. The brightest school and university leavers, who in earlier times were drawn to careers in banking, now opt for other jobs. Long-standing employees, who may have joined banks because these offered high salaries, status and stability, now find that these elements are missing. They are being subject to intensive retraining and asked to modify radically their ways of thinking and working. Thus, the dissatisfaction of the customer is matched by discontent on the other side of the counter.

In answer to criticisms of the efficiency of the Italian banking system, Mr Barucci says that the yardstick for comparison should be the country's service sector as a whole, rather than banking systems in other countries. "The real problem in Italy is the need to raise the efficiency of public services," he claims. Mr Barucci attributes the banks' inefficiency to the burden of having to work with an inadequate postal service, a poor telecommunications network and a creaking system for collecting public sector revenues.

Mr Barucci points to the bureaucratic procedures which weigh heavily on banking operations. The collection of taxes and social security contributions makes heavy demands on banks' resources. According to ABI's chairman, although members are paid for their services as revenue collectors for the state, it is a task they would willingly forgo. Until recently banks generated an enormous volume of paper in order to satisfy exchange control regulations. As part of anti-Mafia controls, when customers wish to deposit cash amounts exceeding L5m, banks are required to record the numbers of every L100,000 note.

Staffing appears to pose an intractable problem in Italian banks.

Earlier this year the Bank of Italy published a "white book" which admitted that Italy's payment systems lag a considerable way behind those of other industrialised countries. In the document experts at the central bank evaluated the current state of Italian payment systems, identified the direction to follow and the action which needed to be undertaken in order to achieve improvements.

Italians prefer dealing in hard cash. The analysis showed that money continues to play a very significant role. While the thriving "black economy" partly explains the attachment to cash, the Bank of Italy considers that the main reasons are to be found in the unsatisfactory nature of other means of payment, and in structural and institutional aspects of the Italian economy.

The statistics given in the "white book" provide some ammunition for Mr Barucci. The payment methods used by the Italian state bureaucratic machine have clearly been backward. Nearly 79 per cent of payments were made in cash in 1985, compared with only 10.7 per cent through transfers to bank accounts. But the Bank of Italy notes an improvement. In 1979 less than 7 per cent of payments by the state sector were made that way.

Pensioners have had to wait until this year for the chance of having their pensions credited directly to their bank accounts. But, given that elderly people are generally less amenable to change, significant shifts in the channels for pension payment cannot be expected in the near future.

A major problem is the scepticism with which Italians view the banks. Extensive, opaque in their conditions, inefficient and offering poor service, Italy's retail banks lack consumer appeal. "The low use of cheques, in particular, can be attributed to the quality and cost of the service given by banks," the Bank of Italy's "white book" comments critically. Analysts at the central bank note that the value dating conditions applied by banks, the time needed for cheque operations and the quality and completeness of information which the banks give customers makes the use of cheques in Italy less attractive than in other countries.

It is not surprising that there is considerable reluctance to accept cheques, given the time needed for them to be credited. "Times for payment are significantly above those in other countries when operations involve bank drafts and cheques," concludes the Bank of Italy's document. It gives three reasons for this: the widespread recourse to the transfer of paper documentation, the lack of set time conditions regarding cheque operations and the scarce or inefficient use of systems for electronic message transmission.

"Banks must not lose their central position in the payments system. We have established an internal organisation to promote developments, and recognise the need to push ahead at the speed of the most progressive banks," says Mr Barucci. He believes that ABI's strategy for payments systems coincides with the lines laid down by the central bank.

However, Mr Barucci is not optimistic that the much-needed bank mergers will occur. The large number of banks is recognised as a factor which hampers progress in Italian retail banking. But Mr Barucci foresees only a 5 per cent drop in numbers by the end of the century.

Italy's retail banking system, might, therefore, still be offering the consumer a choice of more than 1,000 banks in the year 2000. Customers must be hoping that, notwithstanding these tiny steps on mergers, there will be strides in service and efficiency.

David Lane

Foreign banks in Italy

The going gets tougher

THE MAIN talk of the foreign banking community in Italy has for some time been, and remains today, the "situation" at Barclays Bank in Milan. For the past two years the Italian operations of Britain's biggest clearer have been mired in losses, inefficiencies and management problems and only now, thanks to a tough restructuring programme, is anything like a clear strategy for the future beginning to emerge.

Barclays is by no means the only one of the 35 foreign banks operating in Italy to face difficulties - indeed, some two-thirds of the foreign banks are expected to close 1987 in loss and at least two banks are giving serious thought to packing their bags and abandoning Italy altogether. But the Barclays "situation" has certainly been the most extreme example of what can go wrong in the Italian market.

Mr Guido Rosa, the general manager of the Italian subsidiary of Societe Generale of France who serves as chairman of the Foreign Bankers' Association, complains of numerous problems for his members and says bluntly that "the future is not very bright."

Mr Rosa, like other foreign bankers, highlights two principal problems, namely those of funding and of state bureaucracy.

The first problem is that with only two notable exceptions foreign banks in Italy do not have a deposit base to draw upon and must therefore go to the lira interbank market, which is very thin and often illiquid. Interbank funds are so costly for foreign banks that they frequently find that their corporate clients can obtain loans more cheaply from Italian banks.

The second problem is one of bureaucracy and fiscal headaches. For example, a 20 per cent witholding tax is imposed on interest earned on interbank loans. Most Italian lending banks find this a disincentive to extending back-to-backs to foreign banks - the Italians may prefer to lend at a lower rate to companies than to have to deal with the witholding tax. Then there is the famous *bollo* (or stamp duty), that needs to be tacked on to forward foreign exchange contracts, commercial paper deals, securities transactions and many other items.

"All of this just complicates our life," complains one senior foreign banker.

Among the most profitable foreign banks in Italy are Morgan Guaranty, which earns heavily on forex dealings as well as its corporate loan book, and Citibank and Deutsche Bank. These last two are the exceptions in the foreign banking community because they have decided to pay premium prices to acquire a local bank (and branch network) and develop their activities with a substantial lira deposit base.

Barclays Bank in Italy is not the only foreign institution to have faced serious problems.

Last year Deutsche Bank paid US$603m to acquire 98.3 per cent of the profitable Italian bank subsidiary of the Bank of America. The 98-branch network has catapulted Deutsche Bank to the top of foreign banks and the network has a significant retail banking business.

Citibank, meanwhile, in 1985 paid $130m to buy the 43-branch Naples-based Banca Centro Sud. As a result, Citibank's purchase gave it an initial $1bn deposit base and Deutsche Bank began with 12 times as much.

The Italian authorities would welcome further outright acquisitions by foreign banks, in part because of the view that the competition might spur an improvement in Italian bank services. But Italian banks do not come cheaply and few foreign institutions are prepared to pay the hefty premiums being asked.

As for Barclays Bank, it looks as though it is about to turn the corner after a period which can only be described as disastrous.

The bank's problems began in the early 1980s with a rapid and disjointed diversification and expansion programme that saw staff and overhead costs going out of control.

To compound matters Barclays found itself with a leasing joint venture partner in Turin who was accused of fraud and that resulted in L40bn write-offs in the years 1982, 1983 and 1984.

After the leasing scandal, Barclays faced heavy bad debt problems on its retail banking side and at the end of 1985 the alarm bells sounded back in the London head office as the Barclays Italian operation incurred losses of L52bn, (L45bn bad debts written off and L7bn of trading losses).

London's response was to despatch two key executives in January 1986 to deal with the Italian debacle. Mr Giles Cutayar, a London assistant general manager, has been at work on the bank's problems. And Mr Richard Adams, an energetic 42-year-old whose past includes stints running Barclays' international energy portfolio and working on the Eurodollar side, was made country manager for Italy and came out to Milan to take overall charge of bank and non-bank operations.

Mr Adams has had a tough time of it, but he has made significant progress in transforming the Barclays *potpourri* of activities into a good old-fashioned corporate services unit. This back-to-basics strategy has seen some painful sell-offs of Barclays holdings in Italy, a radical cutback of staff and, in some ways, a major retrenchment. But the action appears to be working.

"When I cam here," recalls Mr Adams, "we had 960 people. By the end of this year we will have a staff of 360."

The bank, he explains, took a hard look at Italy and decided to aim at "a minimum strategic objective, being part of the Barclays global network and delivering corporate services to multinationals."

The two big problems that Mr Adams faced - the legacy of leasing fraud and huge bad debts on the retail side - were symptomatic of a business that was out of control - "we were a marketing-driven organisation which expanded very fast in an inefficient and unfocussed way," he admits today.

The restructuring saw Barclays pull out of retail banking in Italy, first by calling in loans and eliminating most retail services and then by selling the Barfidi consumer credit business to Societe Generale. Although profitable, this business would have implied heavy capital investments at a time when the bank had decided to stick to the corporate side.

Mr Adams received a good price for Barfidi, reported in banking circles to have been near to the size of the Barclays 1985 loss. Last month he sold off Barclays' Milan and Bologna branches to Banca Antoniana, a Padua-based co-operative bank. These two deals alone saw the shedding of a total of 362 employees.

BNB Factoring and BNB Leasing, two Barclays ventures with the Banco di Napoli, were sold off to the latter. Barsel, a factoring business, was sold off to the Coin family which had held an initial stake in it. What remains is the corporate banking division, the Barfac factoring business and for the time being, another factoring business called BACRI.

"We have three business areas to run from now on," says Mr Adams, and he lists them as corporate banking in Milan and Rome, investment banking and securities business which will fit into the Barclays de Zoete Wedd international framework and some factoring and leasing business.

The bank's 1986 loss was L18bn and when leasing losses were considered along with profits from consumer credit and factoring the net result was a L35bn loss on the non-bank side.

This year the overall Barclays loss in Italy is expected to be of the same dimension as in 1986, while 1988 is targeted for break-even. It would seem more realistic, however, to think of reaching break-even in 1989.

In many ways the Barclays story in Italy is a cautionary tale. The question that other foreign banks are now asking themselves - and Barclays - is how they, too, can rationalise in a difficult market.

Alan Friedman


ATA-Univas
Wherever it is, we'll find it.
OIL. Wherever it is, we'll find it. Oil is the primary source of energy. It is the power that moves the world and will be so for many years to come.
But, it is necessary to be prepared to wrestle this treasure from the earth's most secret strongholds, using the latest continuously evolving technology, and to venture into hostile, inaccessible places.
Agip, Italy's national oil company, took up this challenge sixty years ago, probing into the origins of the earth, experimenting with new techniques, and devoting to these activities human and economic resources that are always up to the difficulties to be overcome.
Wherever the possibilities of finding oil exist, Agip is present with its spirit of initiative and decades of experience. The results achieved, alone or in cooperation with leading oil companies, in 30 countries, on 5 continents, make Agip a reliable operator in any oil activity.
Even where no-one has ever reached.
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Deep thinking. Top results.

Developments in merchant banking

The Italians grow their own institutions

MERCHANT BANKING was a distant dream when governor Carlo Azeglio Ciampi first mentioned it in his address to the central bank's annual meeting in May 1983.

The realisation of that dream was much nearer when he spoke at the end of May last year. With the Milan stock market then booming, the need for specialist financial institutions was even more strongly felt.

"A significant contribution should come from banks, directing clients of the appropriate size and prospects towards quotation. This underlines the urgent need for developing merchant banking activity, within a suitable regulatory framework" said Mr Ciampi.

The restructuring and return to health of Italy's big corporations during the mid-1980s was due to a combination of factors. Not least were the large rights issues, the placement of which was facilitated by the newly-authorised investment funds. Increases in share capital permitted a reduction in corporate indebtedness, establishing a virtuous circle of improved results and higher investment.

Small and medium sized firms have been less well-placed to undertake modernisation programmes because of the cost of money and their low equity bases. Increasing firms' risk capital is seen as an important objective. Merchant banks are therefore to be key instruments for effecting structural change in manufacturing industry. It is felt that banks should be involved in this process.

Mr Ciampi's exhortations led to more than committees, conferences and learned papers. Action ensued with unusual rapidity. In February, less than four years after Mr Ciampi first broached the subject, the interministerial committee for credit and savings (CICR) issued a ruling which allows banks to take stakes in companies operating in the field of financial intermediation. CICR's ruling was quickly followed by the publication of a detailed regulatory framework.

The Bank of Italy has authorised three main areas of activity. The first is consultancy and assistance in corporate finance, with particular regard to investment funding and corporate development, including mergers and acquisitions. The second area is the management of corporate financing operations, both through loans and risk capital. The third activity in which Italian banks can now participate, through subsidiary, merchant banking companies is investment in shares and bonds.

Italy's banking law, which was enacted 51 years ago, rigidly forbids investment by banks in the share capital of industrial and commercial concerns. Following the bank crashes which rocked Italian finance in the 1920s and 1930s, a strict separation was enforced between banks and the wider world of business. The need for separation continues to be firmly upheld by the central bank.

Commercial banks are kept at arms' length from merchant banking operations. Moreover the authorities have carefully defined what operations are allowed and what are forbidden. Shares and corporate bonds must be acquired with regard to their profitability, at the same time ensuring a suitable spread of portfolio risk.

No single investment is allowed to exceed 20 per cent of a merchant bank's assets (capital or reserves). According to the Bank of Italy, the criterion of expected profitability means that operations must only involve firms which offer valid economic prospects.

"Operations aimed at corporate salvage or the recovery of bank loans lie outside the area of merchant banking," notes the central bank. The authorities also emphasise that shareholdings must be minority and temporary. This ruling, tied to the requirement for a division of risk, aims to prevent merchant banks from having control or being involved in the management of firms in which they hold stakes. Italy's financial intermediation companies are not allowed to engage in portfolio management for third parties.

The regulatory framework issued by the Bank of Italy sets the minimum share capital at L50 billion, though this amount may be altered by the authorities to take account of changed conditions. In order to keep their liabilities balanced, Italy's merchant banks are not permitted borrowings exceeding twice their capital. They are forbidden to employ normal banking instruments for collecting funds like current and savings accounts and certificates of deposit.

The chance of following the fashion of merchant banking has been offered only to a limited number of credit institutions. The authorities consider that membership of the select group should not be open to allcomers. Permission to take majority stakes in financial intermediation companies is only being granted to banks of suitable size and organisational structure.

"Smaller banks which intend

In Italy, commercial banks are kept at arms' length from merchant banking operations. Moreover, the authorities have carefully defined what operations are allowed and what are forbidden.

to be present in the sector should establish companies with share capital as diversified as possible, taking care to ensure that internal organisations are based on criteria of professionality and capable of agile operation," notes the central bank, in recommending collaborative ventures.

Banca Nazionale del Lavoro (BNL), Italy's biggest bank, was able to beat CICR's starting signal because it operates a special section for industrial credit. Through this section it established Finanziaria Italiana di Partecipazioni (FIP), essentially an investment bank, in April last year.

BNL's section originally held a 73 per cent stake in FIP, the rest of the share capital being held by two BNL subsidiaries, Efibanca and ICLE. FIP's aims are to take minority holdings (10 to 25 per cent) in healthy medium-sized companies and prepare them for quotation.

At the end of last year FIP had a small but diversified portfolio. Its first investment, made in September, was a 14.4 per cent stake in the Bolognese bus maker Menarini. This was followed by 20 per cent in IAC, a clothes maker, 15 per cent in Nuovo Sipre, a steel carpenter, 10.9 per cent in Leopoldo Biasi, a Veronese manufacturer of heating boilers, and 5 per cent in Ciset, a company servicing avionics and telecommunications equipment.

FIP has undergone important changes during its brief period of activity. In March BNL reduced its total stake to 76 per cent to make room for the insurance company, SAI, and a group of 38 Italian firms. These included Pesenti, Varasi, Trussardi, Belleli, Coe & Clerici and Merloni.

Further widening of FIP's shareholder base in June brought the number of Italian firms to 45 and the arrival of four foreign investors. BNL's partners in FIP now include Shearson Lehman, Svenska Handelsbanken and Edmond Rothschild.

That the Istituto Bancario San Paolo di Torino has ambitions to be a leading player in merchant banking was made clear when the Turinese institution took a 6.4 per cent stake in Hambros. Explaining the deal made last autumn, the Sanpaolo's chairman Gianni Zandani said that the shareholding in the London merchant bank provides a way of gaining financial know-how and access to placing power. Mr Zandano sees significant possibilities for business with Hambros.

The Sanpaolo's chairman considers that only 2 or 3 Italian banks will have the muscle to survive as major players in international finance. His determination that the Sanpaolo should be one of them explains the Hambros venture and the steps taken in merchant banking at home. In partnership with Istituto Mobiliare Italiano (IMI), the Monte dei Paschi di Siena, Cariplo and the Banca Popolare di Novara, the Sanpaolo holds a 20 per cent stake in Finbancaria.

Complementary to its shareholding in Finbancaria, Sanpaolo has also established Sanpaolo Finance, a company with L100bn of share capital. This Sanpaolo subsidiary offers corporate financial advice to clients, management and participation in underwriting syndicates, investment in minority shareholdings, acquisition of venture capital stakes and international corporate financial assistance.

BNL and Sanpaolo are two of several large banks which are now taking the opportunity offered by CICR's ruling. In contrast, IRI's three national interest

Continued on page 10

Money markets

Lending ceilings bring a note of caution

ITALY's corporate treasurers have learnt some sophisticated tricks during recent years. They have been bringing sharp skills to money management which have left most commercial banks incapable of rapid and effective response.

Financial controllers and their treasury whizz kids have been beating the banks at their own game. This is the conclusion which the monetary authorities in Rome have reached.

Analysts at the Bank of Italy's headquarters have used two approaches in attempting to understand what has been happening in corporate finance. Their macro-economic model has been used to look for evidence of breaks or shifts in the relationship between credit and real activity.

The analysts have discovered that this relationship has recently become very unstable, with high levels of 'noise' attributable to overnight rates. The central bank's micro-economic approach has essentially consisted of deploying its antennae to capture information from banks and other operators in Italy's financial markets.

They confirm that the phenomenon of round-tripping has occurred in significant measure. Large corporations, enjoying good results and healthily recapitalised with fresh risk capital, have found themselves comfortably liquid.

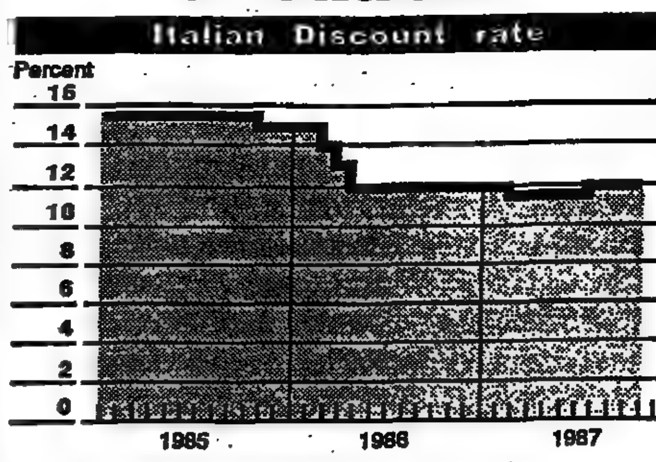
They have not hesitated to wield their financial weapons by employing bank loan facilities to turn a profit on the overnight market. Astute treasury management, using the various tools and instruments now available, has permitted the profitable round-tripping journeys on which Italian corporations have embarked.

Faced with penalty high interest rates during the first half of the 1980s, companies gave special attention to the treasury function and financial management. Computer models were developed and used to minimise crippling financial charges and interest payments. Now in better times these weapons continue to be used against the banks.

That Italy's large industrial corporations have been acting like banks is due partly to historical factors and partly to improved health which allows them this possibility. However, the banks also encourage industrial concerns to act as competitors in the credit field.

The *tasso Fiat* is a subversive reality in Italian banking. The Fiat interest rate is widely applied on lending to top corporations. Though the exact rate is not published, senior bankers confirm that it is around 2 percentage points below prime rate.

Starting the year at 13 per cent, prime rate fell by half a point in February to 12.5 per cent. With September's measures it was raised to 13 per cent again. Central bank figures show that the overnight rate was over 12 per cent in May and June and pushing close to 14 per cent in August, thus giving scope to quick-reacting corporate money managers.



Officials at the central bank wonder how the commercial banks can obtain a positive return from loans at the *tasso Fiat*. They consider that loans should not be given for window dressing and reasons of prestige. There is concern that such operations fail to satisfy requirements for transparency and, moreover, that they demonstrate banks' weakness with respect to their corporate customers.

However, with the re-introduction of lending ceilings in the middle of September there has apparently been a reduction in round-tripping. The ceilings have introduced a dampening note of caution. Few banks possess sophisticated treasury management systems and this causes careful decision-making by management.

The penalties for exceeding the ceilings are strong deterrents. Banks which break their limit of credit growth by between 1 and 3 per cent will be required to deposit 40 per cent of the excess with the Bank of Italy.

For rising between 3 and 6 per cent above the ceiling, the deposit penalty, which earns no interest, is 80 per cent of the excess. Above 6 per cent the deposit penalty is 100 per cent.

The basis for calculating ceilings is average lending in the three months February to April this year. According to the central bank, in this period seasonal variations between individual banks were particularly low.

The limits which have been laid down allowed lending growth of 2.5 per cent at the end of September and 4 per cent at the end of October. The ceiling at the end of November has been set at 4.5 per cent above the base.

When the ceilings are removed at the end of March, the Bank of Italy wants to see bank lending at no more than 6.5 per cent above the base.

By imposing ceilings on bank lending, Italy's monetary authorities have returned to a measure which had been dropped only 15 months earlier. However, the central bank draws attention to the different reasons underlying the use of the restrictive measures: the currency crisis at the start of 1986 and excessively rapid growth in lire lending this year.

The authorities say that lending growth was caused mainly by the conversion of foreign currency loans into lire. Lending in foreign currencies dropped by the equivalent of L3000bn in the three months from June to August.

Officials at the central bank readily recognise the disadvantages which are associated with ceilings. Principally the drawback is that the measure reduces competitivity within the credit system. It lowers efficiency by treating all banks identically. The most efficient banks are prevented from growing at the pace they wish.

The second negative aspect of ceilings is that they encourage banks to seek methods of evasion. During previous periods of lending ceilings the central bank uncovered various ploys to exceed limits without incurring penalties.

Retail banks directed their customers to affiliated special credit institutes, or to their foreign branches, which were not subject to the ceilings. The banks also resorted to breaking up loans into amounts which would lie underneath the recording limit.

When ceilings were last in force the authorities used quarterly returns to verify adherence to them. This gave too much space for manoeuvring loans on the books. Banks now face monthly checks which cut their possibilities of cheating.

Statistics on the money supply are available within twenty days of the end of the month, which gives the decision-makers at the central bank's headquarters a basis for action as timely as that of the monetary authorities in France or the Benelux countries.

They were quickly able to observe the sharp upswing in reserves in the second half of September, following the measures which had been adopted.

It seems that banks have not had difficulty in keeping within the lending ceilings. There has not been a traumatic tightening of credit. The rise in bank interest rates has not matched government bonds. Between August and September the average BOT yield rose by 0.9 per cent to 11.8 per cent.

Over the same period banks' minimum lending rates increased by 0.5 per cent to 12.2 per cent, while the average rate moved up by 0.4 per cent to 13.7 per cent.

It seems that interest rates have bottomed out. The yield on 12 month treasury bills issued at the end of October was 12.2 per cent, compared to the low point of 9.7 per cent at the beginning of April.

But forecasts for the future are not unanimous. Some bankers expect rates to rise by between 1 and 2 per cent over the next six months. Others believe that demand for credit will be slack, thereby depressing rates. External factors will play a crucial part in determining how rates move in Italy's uncertain money market.

David Lane

Financial services

Shifting attitudes among savers

ITALIANS ARE great savers, matched only by the Japanese. Until a few years ago, they kept most of their money in the local bank, a dull but reliable institution which provided economic security, just as the church provided spiritual security. After all,it was the Italians who invented modern banking.

By the standards of western Europe, Italian family money management ideas are still quite simple. But the market for more sophisticated forms of saving and investment has been growing at a prodigious pace.

Treasury bills became popular at the beginning of the decade, their share of domestic savings doubling between 1980 and 1985. Mutual funds were launched at the end of 1984 and in one year attracted nearly 3½ per cent of family cash.

By last year, according to one estimate, Italians were investing nearly a third of their money in government bonds, 12 per cent in equities and nearly 7 per cent in mutual funds. The banks *found themselves holding* a mere 45 per cent of their customers' cash compared with nearly 70 per cent six years before.

This seismic shift in family attitudes has *started* a *lot of pushing* and shoving in the financial services marketplace. The private industrial conglomerates who already dominate Italy's big business sector have been out shopping: a third of Italy's insurance companies are said to have seen a change of control in the last 2½ years, for example.

Foreign financial services companies with the money management skills still rare in Italy have come looking for partners. Small entrepreneurs, some of dubious ethics, have joined the throng of purveyors of the new goods - unit trusts, life insurance, pensions, home loans, foreign stocks.

"I could not imagine many people being keen to put their money into the hands of some individual who comes round to the house late at night," says Dr. Antonio Corti, managing director of Finanza & Futuro, a new joint venture between Carlo de Benedetti's holding company, Cofide, Shearson Lehman Brothers and the Banco di Roma.

"If the banks were efficient, the industrial groups would not have got in. But the banks were not servicing people. Being state-owned or controlled, they had no way of giving their employees the incentive.

"If you wanted to buy shares you had to queue up at a bank counter, then ask three or four different people before you found someone who knew what you were talking about."

Mutual funds have been thebig success story in Italy - at least until last month's stock market collapse shook those over-invested in equities. Some 70 funds had amassed L70,000bn ($50bn) of funds from 3m savers by September this year, an extraordinary development in a country whose stock market used to be regarded - with some justification - as a casino. Brokers say there is still a shortage of smaller,specialist funds, especially for overseas investment.

The insurance industry, dominated by the venerable Generali,Italy's major (and some would say only genuine) public company, has been in ferment as the industrialists stake their claims in this new consumer territory. Life insurance premium revenue has been growing at an annual rate of over 30 per cent, but is still relatively small at about L4,000bn.

By the standards of most of Western Europe, Italian family money management ideas are quite simple, but the market for more sophistictated forms of saving and investment has been growing at a fast rate.

Meanwhile, a new market for individual and company pension schemes is appearing; the state pension system is generally deemed to be on the brink of bankruptcy.

According to some financial experts, the big Italian industrial companies are looking for liquidity, not primarily for profits - although there are profits to be made.

"Companies like Fiat set up financial services so they can place their equity in friendly hands," said one broker. Foreign firms are being invited in to provide expertise and products, but the industry may already be turning into another Italian oligopoly, according to this view.

The biggest force in the market is the state credit agency Istituto Mobiliare Italiano (IMI). Its quasi-independent investment banking arm SIGE, due to float 25-30 per cent of its equity shortly, claims to be the leading asset management company and brokerage house. IMI also owns Fideuram which has probably the widest network of commission agents in Italy for the selling of mutual funds and the insurance policies of its subsidiary, Fideuram Vita. IMI got into the business years ago, taking over the agents left behind by Mr. Bernie Cornfeld's notorious door-to-door operation, IOS.

Behind IMI comes fund manager Prime with $6.4bn of savings to its name. Prime is a 50-50 venture between the Agnelli family and Monte dei Paschi di Siena. RAS, the big insurance company owned by Allianz of W. Germany, with its offshoot Dival is reckoned to be the third largest in the market.

Recent activity testifies to the vigorous positioning that is going on. For example, Gemina, the financial company owned by Fiat, Pirelli and the state merchant bank Mediobanca, announced it was buying a stake in Intercontinentale Insurance from Latina, one of Carlo de Benedetti's concerns.

Latina had three months before taken control of Norditalia, another insurance company, to *add to Ausonia which it acquired* last year.

Mr. de Benedetti sold half his stake in the investment bank Euromobiliare to Mr. Raul Gardini, the voracious boss of agroindustrial group Ferruzzi. Ferruzzi subsequently found itself in indirect control of the Florentine insurance company La Fondiaria when Montedison, the big chemical company that Ferruzzi controls, snatched a key stake.

Montedison's move was regarded as a spectacular coup on the part of its chairman, Mr. Mario Schimberni, who incurred the wrath of Fiat's Giovanni Agnelli who had his own designs on La Fondiaria. Montedison, too, has a financial services company, Iniziativa Meta, which recently reported a healthy profit improvement of over 60 per cent.

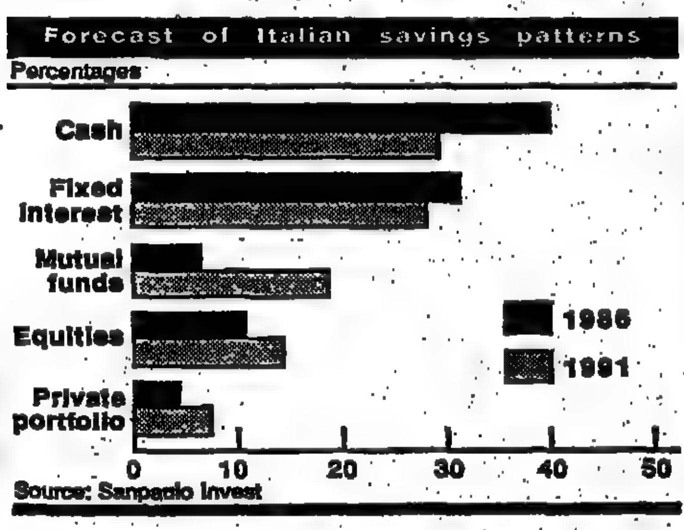
Just to add to the picture, one of Montedison's shareholders (who has stakes also in Pirelli and in de Benedetti companies) is Mr. Salvatore Ligresti. The boss of a Padua-based construction company, Grassetto, Mr. Ligresti has taken control of Societa Assicuratrice Italiana (SAI), another big insurance group.

Among those breaking into the business for the first time is the Benetton family, the Ventian entrepreneurs who have built a worldwide business in cheap and cheerful casual clothes. *Their* financial services company, In Holding, is still being constructed with the help of foreign and domestic partners.

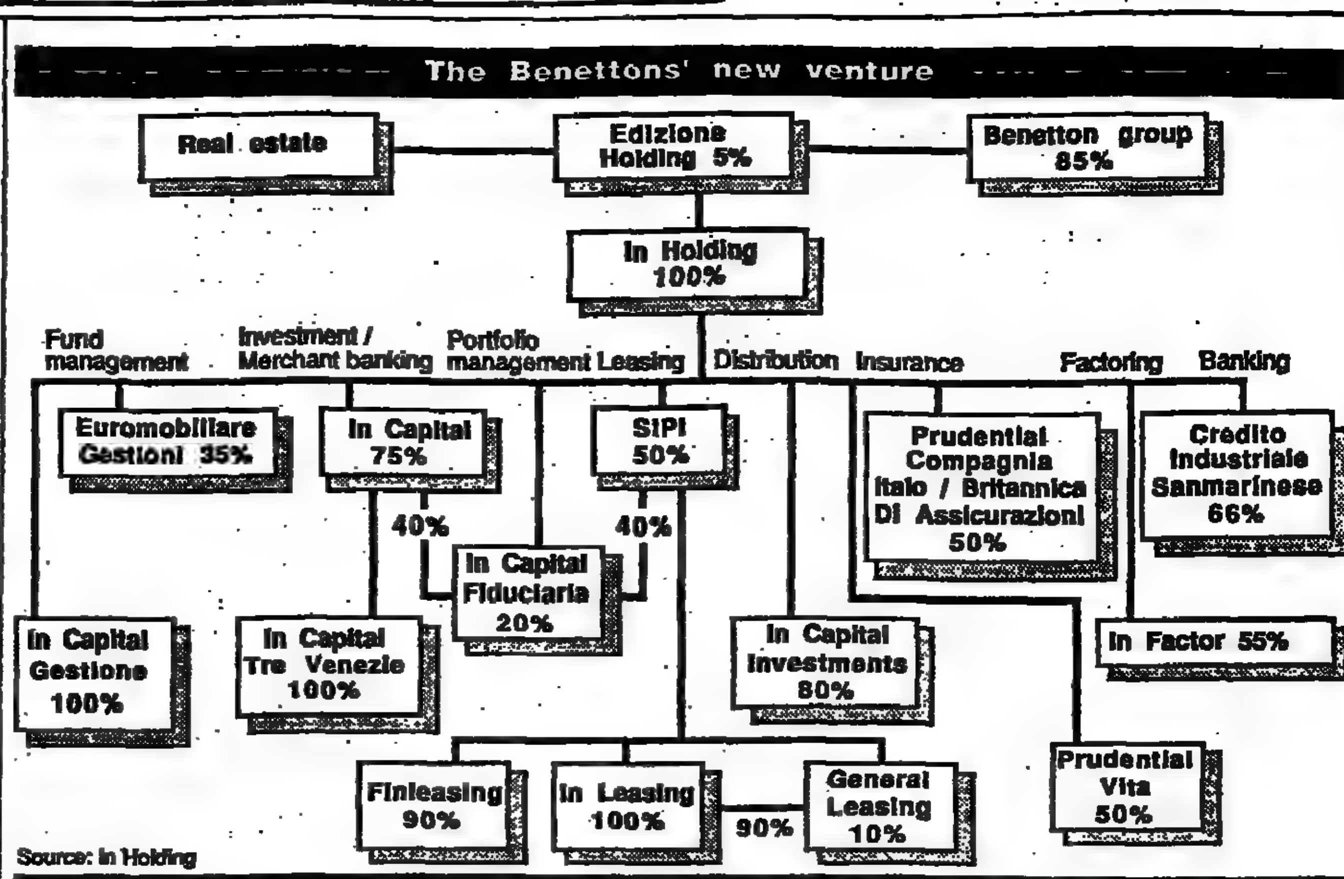
Many fund managers believe the financial services market is close to saturation now in terms of the number of competitors, even if it has a long way to go in terms of sales. Dr. Corti of Finanza & Futuro says he cannot see any big new entrepreneurs coming in, while some of the smaller ones must fall by the wayside.

"Only those who can promise both to make money for people and to give them security will survive. In this business you need real capability in both marketing and in financial engineering," he says.

Christian Tyler



Source: Sanpaolo Invest



Source: In Holding

The Benetton group diversifies into financial services

Taking on the big names

HAVING MADE a fortune from their fast fashion franchise business, the colourful Benetton family (three brothers and a sister) are hoping to repeat the performance in financial services.

The move is a diversification for the family, whose joint worth is estimated at around £1.5bn, not for the clothing company they created. This time, moreover, the siblings will be relying largely on professional managers from outside rather than on their own talents. As the eldest brother, Luciano, said recently: "We started out two years ago with the first ventures and we recruited some managers. Now we must leave them time to get organised."

It was Mr. Aldo Palmeri, Benetton group managing director, and Mr. Carlo Gilardi, finance director,(both former Bank of Italy officials) who had the idea of branching out into personal and corporate financial services.

Mr. Palmeri is president of the recently-created financial services vehicle, In Holding, a wholly-owned subsidiary of the family's master company Edizione Holding SpA. The managing director is Mr. Giovanni Franzi, who has been working outside Italy for the last 27 years, most recently on the investment banking side of Merrill Lynch in London.

"I wanted to set up my own financial services company in London," Mr. Franzi says. "But they convinced me to come back. There's a lot of financial backing and a lot of autonomy and it's a young, quick decision-making and entrepreneurial group."

With authorised capital of L100bn (which will be fully paid up by the end of the year), In Holding is putting together a group comprising unit trusts and asset management, leasing and factoring, insurance, and merchant and investment banking.

The group also has 66 per cent of a bank in the little Adriatic republic of San Marino, not far from the family's Treviso headquarters. This was bought as an investment, but the Benettons - like other industrialists forbidden major stakes in Italian banks - are trying to think of ways of harnessing these "offshore" deposits to their new business.

For the colourful Benetton family business, this latest venture is an ambitious move.

At this stage, perhaps the most important link in the chain, as for everyone in this new and crowded market, is the agency network. In Holding wants 100 agents by the end of this year, 400 by the end of next and 1,000 eventually. Established competitors *already have several* thousand agents.

It is in the marketing of services that the Benettons clearly believe they can teach the competition a lesson. They will learn from their own experience as clothing manufacturers who sell worldwide through outlets they control but do not own.

"Benetton is a company, but it is also a universe," Mr. Franzi explained. "There are suppliers, entrepreneurs, agents and shopowners who are connected with Benetton and who have become rich with Benetton. They already constitute a target market."

Benetton moved into factoring and leasing in the course of building up its retail network: those interests are now to be transferred from the industrial group into the financial one.

In Holding will not emulate Sears of the US which attempted to sell stocks and socks in the same shop. But it will try to adapt its franchising system to financial products by developing a network of 100 distribution areas, each headed by a manager with ten salesmen (or "financial consultants" as they are more politely called.)

These financial retailers will be treated as small partners or investors, not just as agents, according to Mr. Franzi. They will be paid a *maintenance fee* on top of their commission and offered long-term contracts to bind them to the business. Area managers would be offered stock options as an inducement to stay loyal.

It is possible that In Holding will go even further and foster a chain of franchised "money shops" under its banner, separate from but in some way resembling the clothing outlets.

The company believes that the Benetton name and sales technique will readily translate into the very different language of financial services, while Benetton money will ensure that the venture gets a good start in life. Many of the smaller, single-product financial companies that have sprung up in recent times are said to be already in trouble.

The real competition is likely to come from the familiar big names of Italian industry such as Agnelli, de Benedetti and Berlusconi, and from the state or quasi-state financial institutions.

The Benettons have been buying domestic and foreign expertise. For example, one of In Holding's early transactions was to take a half share in the Italian subsidiary of Prudential Assurance of the UK, *to sell casualty* insurance. Two months ago, the partners set up Prudential Vita to tap the fast-growing life insurance market.

It has teamed up with another textile group, Gruppo Finanziaria Tessile - Italy's second largest after Benetton itself - and with three banks to create In Factor. GFT is also the sole minority partner of In Capital, the investment and merchant banking arm.

Two months ago, In Holding bought 35 per cent of Euromobiliare Gestioni, a fund management company owned by Euromobiliare, a leading investment bank.

The Benettons' new venture is still very young, but nothing if not ambitious. Luciano Benetton, the family's marketing ace, told a local periodical recently: "In this field we don't want to become important just in Italy. We want to be important in France, in Spain, in the US, and in every country in which we have an industrial presence."

Christian Tyler

External borrowing

Issues win investor appeal

ITALY'S PROFILE in the Euromarkets has undergone a transformation in the last two months. Before September, it had not issued in its own name for more than two years.

Yet recently, it has emerged as the most active sovereign borrower in an admittedly thin new issues market, issuing first a $1bn bond and, last month, a Y300bn issue. These were respectively the largest ever fixed rate issues in their sectors.

The issues mark a change from the Italian Government's previous policy of funding itself in the domestic market, which has been a key contributor in maintaining its triple-A status.

Though total national debt stood at L793,000bn last year, or 88.6 per cent of gross national product, the Government has been able to sustain its high level of borrowing because the private sector in Italy has always been a big net saver.

But bankers stress Italy's credit standing is still not under threat, as the change to external indebtedness is only marginal. In September (before its Euroyen issue), 94 per cent of the Government's total borrowing of over L600,000bn had been arranged in the domestic market.

Nevertheless, it seems likely that Italy will become a more frequent borrower in the Euromarkets over the next year or so.

This is partly because the move to external borrowing was the mirror image of a liberalisation of capital controls that the Italian Government carried out during the summer, which for the first time allowed Italian private investors to buy foreign securities without having to lodge 15 per cent of their investment in an account with the Bank of Italy.

This means that the private sector should become more of a lender abroad, so it seems natural for the Government to look abroad for more of its funding.

But, as an unintended consequence, the liberalisation has also made it more difficult for the Government to fund itself in the domestic market.

The change was supposed to come at a time of current account surplus, so that there would be little difficulty in accommodating the expected capital outflow without disturbing the lira's value on the foreign exchanges.

But in fact it came as the surplus was dwindling, so the looser capital controls pushed domestic interest rates upwards, to head off the pressure on the currency. The Bank of Italy, in particular, has wanted to avoid devaluing the lira, because of concern about the inflationary consequences of this course.

The Italian trade balance has been deteriorating much faster than expected. During the first nine months of this year, it reached L8,670bn ($6.84bn), double the figure for the corresponding period in 1986.

So the fragility of Italy's external position, and relatively high Italian inflation, have created little room for reductions in Italian interest rates: unlike those in other countries, they did not fall during the recent stock market crash. The domestic investor is therefore demanding higher coupons on the Government's bonds.

At the same time, there have been calls for stiffer controls of Italy's government debt, which has failed to come down this year, as was expected, because of larger-than-anticipated public sector pay awards.

Political wrangles have led to a shelving of the coalition Government's first budget proposal for 1988, and the Cabinet is now expected to adopt a new budget deficit target of around L104,500bn, against an original L109,500bn.

But in spite of all these problems Italy is still strongly in favour with Euromarket investors. This is partly because it has been such an infrequent visitor to the markets over the last few years, and partly because it has always paid reasonable rates.

This is in stark contrast to some other sovereigns such as Denmark, which has gained a reputation for tapping the market too often, and on terms that left little on the table for the investor.

The third reason why Italy's last two issues have won investors' approval is that they have been exceptionally large. With concerns about the liquidity of the Eurobond market growing, investors are now much keener to see big, liquid issues than a host of smaller ones.

The policy of issuing bonds in large amounts suits Italy too, bankers who market to the Government point out. One said: "It is clear that Italy is not interested in small issues; they will only move into the market when they are sure they can get large amounts."

By issuing in very large amounts, the Government can show the foreign exchange markets that it has the confidence of the Eurobond market, which it can use to build up foreign currency reserves to defend the lira.

This leads on to the expectation that Italy will continue to concentrate on the bond market, rather than the banking market, since bonds gain greater publicity. However, recently there have been murmurings in the bank market that Italy may be arranging a $1bn loan.

The success of its last two bonds is impressive, given that both appeared in difficult market conditions; the dollar bond as US interest rates were heading sharply upwards ahead of the stock market crash, and the yen bond at the height of the turmoil in financial markets in October.

However, both bonds were priced at rates to encourage switches out of existing comparable issues.

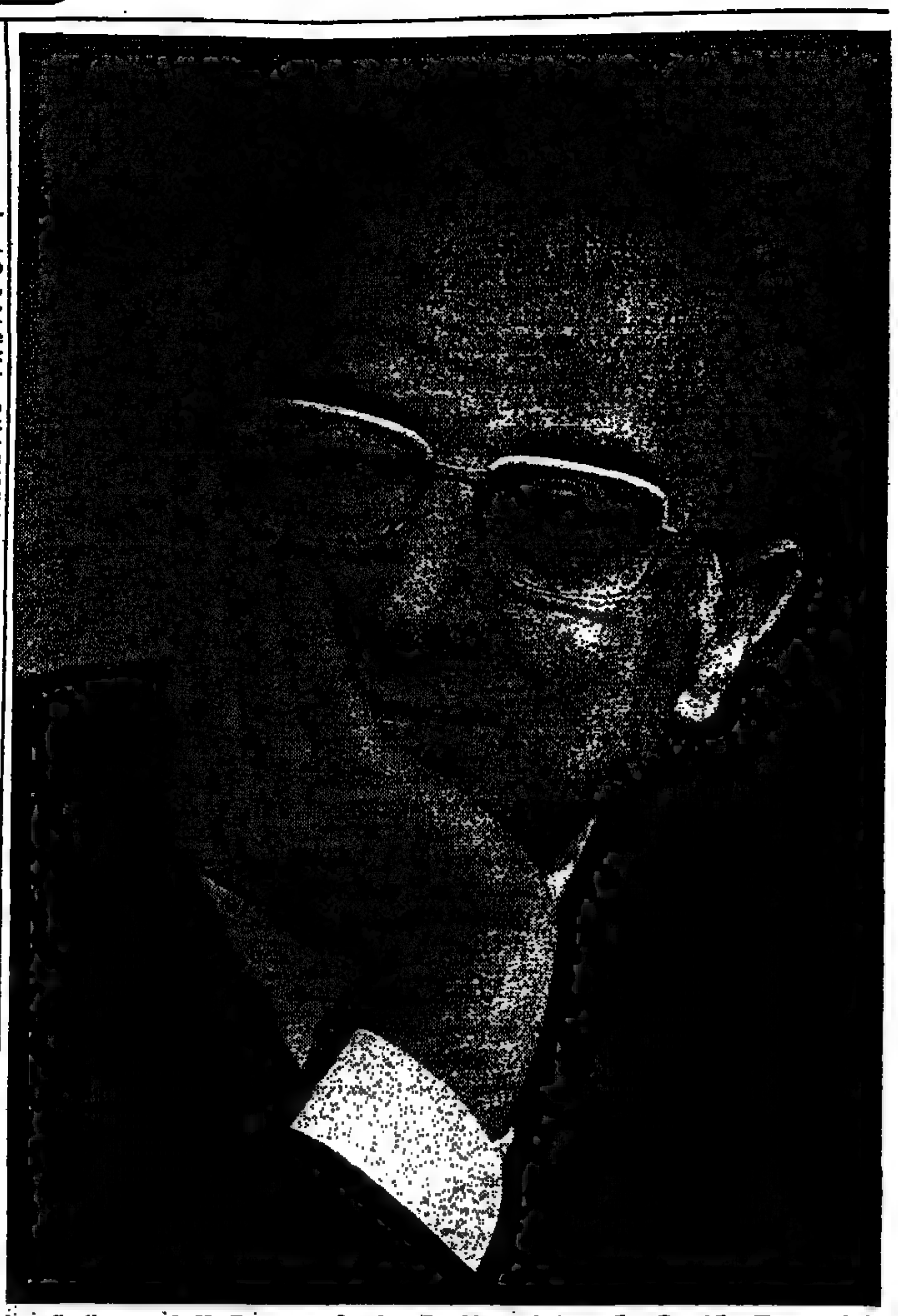
Italy's $1bn issue, led by Credit Suisse First Boston,was given a short maturity of three years - a wise move given investors' reluctance to extend further along the yield curve. The bond also paid a margin of 60 basis points over US Treasury bonds - considered generous at that time, before yield spreads rose steeply during the crash.

Italy's Y300bn ($2.12bn) bond was even more of a coup, since it not only marked the largest ever Euroyen issue, but with the fixed rate tranche it surpassed its own record of launching the largest fixed rate issue. The fixed rate tranche totalled around $1.06bn.

Admittedly, Nomura International, the lead manager, prepared the ground for the issue very carefully. The floating rate portion, which paid interest linked to the Japanese long-term prime rate, was substantially preplaced with Japanese banks. The 5¾ per cent, 4¼-year fixed rate portion, meanwhile, was priced to give a 30 basis points yield pick up over comparable bonds.

Clare Pearson

The Rome headquarters of the Bank of Italy on the Via Nazionale.



In reflective mood: Mr Francesco Cossiga, President of the Italian Republic. The country's credit-standing in the international capital market remains high in a period otherwise tinged with uncertainty.

Growth in financial services

Continued from page 8

banks have had a firm foothold in the field of corporate finance since immediately after the Second World War, through their collective controlling stake in Mediobanca.

The role of Mediobanca as an investor and financial adviser to Italy's large corporations is well-known. Last year the Milanese institution managed 21 share and convertible bond issues for a total value of L5940bn. Under its new chairman Antonio Maccanico, and with privatisation on the way, Mediobanca has again become a focus of interest.

IMI is a name of even longer standing in Italian finance. In March it completed its 55th operating year. IMI's corporate finance activities are undertaken through its subsidiaries Italfinanziaria and Sige, which have recently been merged. This move follows indications from principal international markets that IMI would be best served by having a single, large subsidiary operating in the area of corporate finance.

Last year Italfinanziaria was involved in three major placement operations for total of L75bn. New investments were made in three companies and shareholdings in existing investments were increased involving an overall investment of L75bn. Sige's scale of activity was much larger. It managed nine placement syndicates for a total of L964bn as well as participating in a further 56. The IMI subsidiary is involved in asset management, broking, capital market operations and the management of private investment portfolios.

IMI's executive vice president Giorgio Questa, emphasises the need for continuous development in order to keep level with foreign comeptition. "The field is exposed to competitive forces. It is difficult to expand. IMI works mainly with the top tier of large corporations which are certainly not tied to obtaining their financial services at home in Italy. Life will be even tougher after 1992," said Mr Questa.

He is somewhat sceptical about the immediate prospects for merchant banks, underlining the uncertainty of the meaning of the term in Italy.

David Lane

Pension funds

The state system is in difficulty

PENSIONERS can breathe a sigh of relief and sleep more easily. The Istituto Nazionale della Previdenza Sociale, the state pension fund INPS, is not on the verge of bankruptcy. The monthly old age pension is not threatened by imminent financial disaster at the state institution.

Moreover today's workers, whose social security contributions fund current pensions payments, should not be anxious that the much-discussed collapse of INPS has only been delayed until they retire.

INPS' chairman Giacinto Militello has a reassuring message for both the elderly living on pensions and the active members of the community whose monthly salaries are lightened by social security deductions.

A Sicilian journalist who was general secretary of the communist CGIL trade union from 1979 to 1985, Mr Militello has spent the last two years putting INPS' accounts in order.

"Until now INPS has been used as a social shock absorber. The costs of industrial renewal, unemployment in the poor 'mezzorgiorno' regions and labour lay-offs during the economic recession have been borne by INPS," he said.

Mr Militello explained that his objective has been to clarify the financial situation at INPS through the preparation of parallel accounts and the reclassification of all inflows and outflows.

"There was considerable abuse of invalidity pensions in the past. These were given for economic rather than health reasons, to mask and compensate for unemployment and under-employment," said Mr Militello.

From a total of 18.4 million INPS pensions at the end of 1985, 4.8 million were being paid to invalids. Invalid pensions represented a cost of L26,500bn last year, which was equal to one third of the total pension payments disbursed by INPS.

Agriculture provides the extreme example of abuse of the system. In this sector invalids outnumber old age pensioners by nearly four to one. The 1.4 million invalids from farming are beneficiaries of a mechanism for social engineering. It is easy to see how the invalidity pension became a valuable tool for the politicians in tending their undergrowth of *sotto-governo*.

Mr Militello is adamant that INPS' funds should be used only for paying retirement pensions. "While instruments and measures for assisting society's less fortunate members are certainly needed, the costs must be borne collectively and not through the misappropriation of pensions contributions paid by workers and their employers," he said.

The chairman of Italy's national pension fund is determined that it should never again function as a dampener for upsets, or corrective mechanism for distortions affecting the country's social structure.

Mr Militello would like Italy's pension system to be overhauled. "Pension reform is definitely necessary. However this is very difficult because of the considerable anomalies which exist," he said.

Current levels of social security contributions are very high. Employers must pay 35.5 per cent of earnings together with a further 9.6 per cent for health assistance. Employees' contributions amounting to 53.9 per cent of earnings feed the pension fund.

"On the income side far too much weight is put on contributions. They are significantly higher than in other countries, thereby creating a tax on employment," said Mr Militello.

He considers that it is not possible to increase contributions in order to cover increasing expenditure. According to INPS' chairman, higher taxes are needed so that pension levels can be maintained.

INPS' pensions are not so generous as those paid by ministries to civil servants, by the Treasury to local government employees or by the state banks to their pensioners. Nevertheless they compare well with Britain. Pension rights mature at 60 years for men and 55 years for women, five years later for the self-employed.

However, pensions are payable after 35 years contribution, whatever the age of the benficiary. The pension is adjusted through the cost of living index. Related to earnings, the amount is calculated on the average earnings during the last five years of contributions. Each year of contribution provides 2 per cent of earnings and maximum pension is 80 per cent of earnings, equivalent to 40 years of contributions.

Over the past two years steps have been taken to protect these rights. By reclassifying INPS' accounts Mr Militello and the other trade unionists who sit on the board of Italy's state pension fund have clarified the picture for the politicians.

It has become more difficult for the legislators to pay the cost of sundry social measures from the resources of the pension fund. In addition, parliament has been cornered into making the proper appropriations to cover non-pension items like the fiscalisation of social security charges (which cuts costs incurred by the corporate sector), payments made to workers under the labour lay-off scheme, assistance in the *mezzogiorno* and the costs of early retirement schemes introduced to allow industrial rationalisation.

Using the old accounting procedures the INPS' fund for people employed in industry and commerce showed deficits of about L11bn in both 1985 and 1986, L9100bn in 1984 and L6200bn in 1983. INPS' reclassified accounts show surpluses of L1700bn in 1983 and L200bn in 1984, followed by deficits of L1300bn in 1985 and L800bn last year. Mr Militello points to an operating result which has improved from a loss of L15,300bn in 1985 to an expected loss of L2800bn in the current year.

But further steps are needed, in spite of the improvements. "INPS is now facing greater liabilities to pay ensions as the workers of the economic boom years of the 1960s and 1970s reach retirement age, said Mr Militello. He explained that, while the forecasts prepared by INPS up to the year 2010 do not presage a calamitous crash, action is required.

Various proposals have been made for reforming INPS pensions. Raising pensionable age, to 65 years for both men and women, has been put forward. It has been said that this alone would pay 80 per cent of funding shortfall. Another idea is to lift the minimum contribution period from 15 to 20 years.

Mr Militello believes that a campaign against evasion would yield a significant untapped source of revenues. In any case, according to the INPS chairman, these are policy matters for parliament to decide.

Cataclysmic predictions of a falling workforce of contributors attempting to support a growing number of pensioners are brusquely dismissed by Mr Militello. He believes that catastrophic forecasts are nonsense.

"Pensions depend on economic development and growth. It is a question of distributing the wealth which is produced. There is considerable confusion over aims and uncertainty over figures. The first step must be to clarify these" he said. He is well aware of the anxiety which uncertainty at INPS, widely reported in the Italian media, stirs up in the minds of pensioners and workers.

"Reform is needed for economic reasons and for equity" said Mr Militello, who wants to ensure that the solidarity of the last two decades is safeguarded.

His ideal model for pensions has three elements. The first is a basic subsistence pension granted to everyone. The second is a contributory, earnings related scheme, with uniform regulations for different categories of workers. The final element in Mr Militello's model is a private pension fund. However, he warns of the need to prevent these from widening social gaps.

INPS' chairman favours the use of part of the employees' leaving indemnity, accrued annually in company accounts, to help finance private schemes. On this the state pension fund has support not only from trade unions but also from banks and insurance companies. However, there is strong resistance from companies who use leaving indemnity funds as interest-free finance.

"Obtaining the right balance between pubikc and private sector is the key. Pensions should be neither completely state nor wholly market" said Mr Militello. He referred positively to the recent initiative by the Montedison chemicals company. The Milan-based corporation being the first off the mark with a company agreement.

The Montedison agreement, signed in April this year, established the Fondo Integrativo Previdenza Montedison Firpem. "We were the first company to take this step" said Gilberto Gabrielli, Firpem's chairman. The pension fund presently covers Montedison's 33,000 chemicals workers, though Mr Gabrielli hopes that the agreement will soon be signed by the trade union representatives of textile workers and the distributive trades, sectors in which the company has substantial operations. Members of the fund could eventually total more than 70,000.

"The chemicals trade unions are the hardest bargainers, but at the same time they are the easiest to negotiate with because they are the most professional. Despite their ideological position the communists of the CGIL gave a positive response" said Mr Gabrielli. Trade unions and company each have six members of the fund's board, where decisions are made on a two thirds vote.

Company contributions to the fund are 1.1 per cent of earnings, with the employee subscribing a further 1 per cent. "Obviously considerable attention has been given to defining the rules for entry to and exit from the fund" said Mr Gabrielli. Withdrawal before five years have elapsed causes the subscriber to lose the company's contribution. He will be reimbursed his own contributions plus interest.

Montedison's private pension fund is unusual in that it does not involve insurance companies. Investments are made by a management company, Agos, which is part of Montedison's Iniziativa Meta. This was agreed after lengthy discussion between company and trade unions.

Guidelines for the portfolio, which should amount to L30bn after one year, have been set by Firpem's board. One half of investments are to be in state bonds and debentures, up to 30 per cent on the Italian stock market, 20 per cent abroad and 5 per cent in the money markets.

According to Mr Gabrielli, the pension fund will be able to double employees' leaving indemnities after 25 years. Alternatively, based on what he describes as a prudential calculation, an additional monthly pension of L8000,000 to L1,000,000 will be payable. Such figures certainly contrast with Mr Militello's ideas that gaps should not be widened excessively by private pension schemes.

But the outcome, of course, depends on how markets perform over the next quarter of a century.

David Lane

There have been reassuring messages for the elderly that the state pensions fund is not in danger of collapse. Current levels of social security contributions are very high - employers must pay 35.5 per cent of earnings together with a further 9.6 per cent for health assistance. Pictured above are elderly citizens of Milan, enjoying an evening chat in the Piazza Del Duomo.

Keeping accounts in order: Mr Giacino Militello, chairman of the state pension fund.

Clouds on the horizon

Continued from page 1

keep industrial concerns from buying more than a minority stake in banks.

The Consob stockmarket authority is also working on regulations that would resolve a battle between banks and stockbrokers over dealing rights on the bourse. And there is little sign that official guidelines stipulating that mutual funds may hold no more than five per cent of any one company are being followed - in some cases there have even been allegations of funds investing disproportionate amounts in the shares of industrial companies which partly own them.

The financial markets have developed, and three million Italians do now invest in the stockmarket, mostly via mutual funds which have attracted L70,000bn of savings in just three years. But the small investor takes more risks in Italy than in other equity markets, even when the markets are healthier than in recent weeks. In a somewhat extreme statement one leading broker in Milan said the individual investor "is still just a sacrificial lamb who is brought to the bourse and slaughtered."

Mr Franco Piga, Consob president, says he wants legislation to ban insider trading, but he has been saying that for some time now and the practice remains rampant. Likewise, it is worth noting that Ferruzzi and Pirelli, two of Italy's biggest international industrial groups, have yet to present their first-ever consolidated balance sheets.

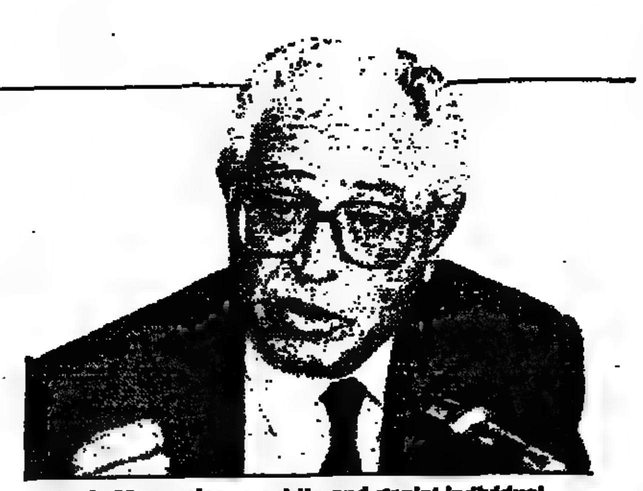
As for the public sector, progress has been made at both IRI and ENI. The privatisation of Mediobanca, the Milan merchant bank that is 56.9 per cent controlled by IRI banks, will be of historic significance if it is carried out as promised by the government.

Relations between the state sector and private sector companies are dismal, however. The recent collapse of the planned merger of the State-owned Italtel telecommunications company and Fiat's Telettra, is another unedifying example of how Italian private and state entrepreneurs seem unable to agree on something they all feel is essential and strategic for Italian industry. Another example is the stalled talks between Montedison and ENI on rationalising the chemicals sector.

Much of the above may sound gloomy, but it should not detract from the notable progress made in the Italian economy in recent years.

Profile: Antonio Maccanico, chairman of Mediobanca

The great mediator takes office



Antonio Maccanico: a subtle and genial individual.

HE IS A MAN of great subtlety, until a few months ago a lifelong civil servant whose power and influence far exceeded the dreams of any Whitehall mandarin, a genial individual who moves behind-the-scenes with grace and charm.

His name is Antonio Maccanico and last March he was appointed chairman of Mediobanca, the Milan merchant bank that for the past three years has been mired in controversy. It is a job that has already put the 63-year-old Mr Maccanico's considerable talents to the test and he has so far won high marks for his performance.

In some ways the choice of a home civil servant as chairman of the most important merchant bank in Italy might seem an odd one, but Mr Maccanico has qualifications - and connections - that make him ideally suited to the post.

Born in Avellino, an uninspiring town to the east of Naples, Mr Maccanico took his law degree in Pisa after attending the elite Scuola Normale there, an Italian equivalent of Eton or Harrow in terms of prestige. At the age of 23 he joined the chamber of deputies, at a time when Italy's constitution was being drafted. In the 1960s and 1970s he worked in ministries and as secretary-general of the lower house of parliament, serving in 1976 as president of the ad hoc committee in Brussels for direct elections to the European parliament. A constitutional expert, Mr Maccanico reached what to many would have been the pinnacle of an already distinguished career in 1978, when he was named secretary-general to the president of the Italian Republic, in effect the man who managed the president's office and staff at the Quirinale Palace in Roma.

For years he was familiar to the Italians as the silent and good-natured man who accompanied President Sandro Pertini on his travels. His friendship with President Pertini runs so deep that when the stubborn 90-year old Mr Pertini gave doctors a hard time over his need for a pacemaker it was Mr Maccanico who was called in to spend two hours convincing the ex-president to have the operation.

Until last March Mr Maccanico served in the same position at the Quirinale as aide to President Francesco Cossiga, but the view of Rome decision-makers was that he was needed for an even more delicate task - bringing peace to Mediobanca. And this being Italy it may or may not be a coincidence that Mr Maccanico is the nephew of Adolfo Tino, who until ten years ago had himself served for many years as Mediobanca chairman.

Certainly Mr Maccanico knows his way around Mediobanca's discreet headquarters in the elegant 19th century building in Milan's Via Filodrammatici, the narrow cobblestoned street than runs just behind the Scala opera house. And he knows his most famous predecessor, Mr Enrico Cuccia, the 79-year-old intellectual Sicilian with a passion for James Joyce, secrecy and power.

It was Mr Cuccia who ran Mediobanca for 40 years (some insiders say he still has effective control of the bank despite Mr Maccanico's arrival) and it was Mr Cuccia who angered the IRI state holding group that controls 56.9 per cent of Mediobanca through shareholdings owned by its three bank subsidiaries - Banca Commerciale Italiana, Credito Italiano and Banco di Roma.

Mr Cuccia, having survived a magistrate's investigation into his role in a 1970s slush fund operation and having been ousted from his board seat representing IRI, still sits in an office adjoining Mr Maccanico's. But now Mr Cuccia is merely the representative of Lazard Freres, one of a handful of minority shareholders that has managed, until now, to have equal decision-making power with the majority shareholder by virtue of a typically secret control pact he devised in 1955.

Mr Cuccia was the man who built a spider's web of industrial cross-holdings that made Mediobanca, nominally a state-controlled institution, into a bank which has served mainly the interests of a tiny private sector elite led by the Agnellis and Pirellis. Until recently no deal could be done in Italian corporate finance without Mediobanca's imprimatur. The growth of a relatively more pluralistic financial market has cost Mediobanca its primacy and it was Mr Maccanico's brief to translate the new reality into formal terms, an unusual task for a man who looks up to the old establishment whose influence he is meant to be limiting.

Mr Maccanico is famed for his sense of fair play, however, and is a great mediator. He has thus overseen a privatisation project for Mediobanca which, if carried through, will be of historic importance in that it will see the state's share dropping from 56.9 to 20 per cent of the bank.

Much of the detailed work on the plan was done by Mr EnricoBraggiotti, who runs Banca Commerciale Italiana, but Mr Maccanico spent a great deal of time acting as go-between among old shareholders such as Mr Gianni Agnelli and prospective shareholders such as Mr Carlo e Benedetti and Mr Raul Gardini. It is Mr Maccanico who deserves at least part of the credit for the real significance of the Mediobanca privatisation - the official recognition that the inner circle of Italian capitalism is widening, at least somewhat.

Not being a banker Mr Maccanico's role is in many ways more one of diplomacy than finance, but this is, after all, his greatest talent. He is certainly more accessible than Mr Cuccia, whose penchant for secrecy is something of an obsession. Mr Cuccia has not given a press interview in 41 years at Mediobanca. Mr Maccanico is willing to even speak on the telephone

Alan Friedman

Italy's Top Ten Banks

Figures for 1986 compiled by the San Paolo research department

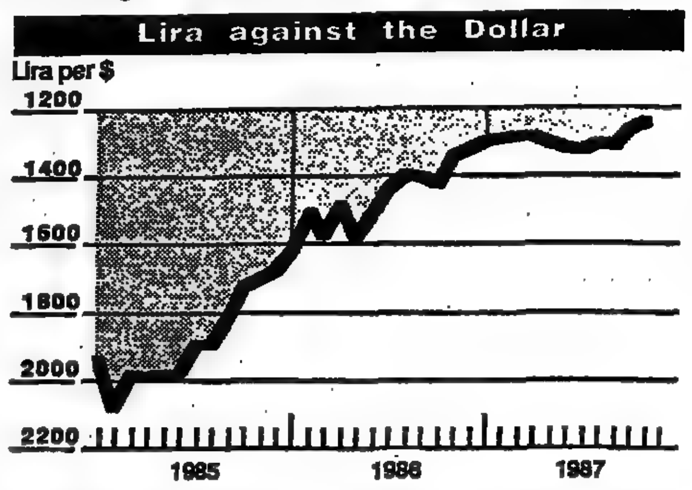
BANK	Total assets* (billions of lire)	Net Profit*	Return on assets (%)
Banca Nazionale Del Lavoro	98,270	267	0.27
Banca Commerciale Italian	67,860	276	0.41
Banco Di Roma	67,527	75	0.11
Istituto Bancario San Paolo Di Torino	63,044	475	0.75
Credito Italiano	60,989	208	0.34
Banco Di Napoli	60,238	55	0.09
Cariplo	56,694	180	0.32
Monte Dei Paschi De Siena	48,665	226	0.46
Banco Di Sicilia	33,072	24	0.07
Banca Nazionale Dell' Agricoltura	31,461	58	0.17

*All figures refer to main bank operating company and associates.

The Italian Economy

	1980	1981	1982	1983	1984	1985	1986	1987 (est.)	1988 (est.)
Public sector deficit (lire bn)	37,018	53,293	72,702	88,257	95,387	110,226	109,585	109,000	105,000
Prime rate (annual average %)	19.9	22.1	21.5	19.1	17.7	16.6	14.2	12.7	—
GDP growth (%)	3.9	1.1	0.2	0.5	3.5	2.7	2.7	2.8	2.5
Inflation (annual average %)	21.2	18.5	16.5	14.7	10.8	9.2	5.9	5.5	—
Money supply growth (%)	12.7	9.9	16.9	13.3	11.8	14.3	9.4	8-9	6-9
Credit to private sector (% growth)	16.3	13.5	13.4	13.1	15.3	9.3	10	10	8

Lira against the Dollar



Public debt

Public debt of principal OECD countries as % of GDP

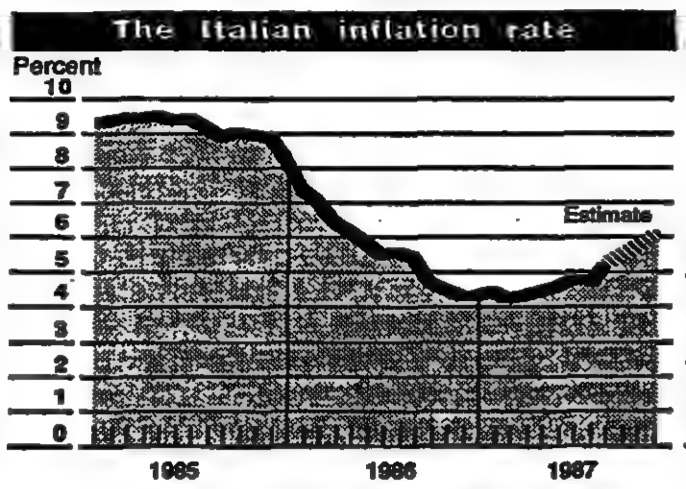
	84	85	86†	87‡
Italy	77.7	84.6	88.6	93.4
US	45.1	48.5	50.5	51.6
Japan	66.4	69.4	69.1	69.5
W Germany	41.7	42.3	42.4	43.2
France	32.6	34.6	36.4	38.3
UK	55.3	53.7	53.8	53.0

† estimate; ‡ forecast

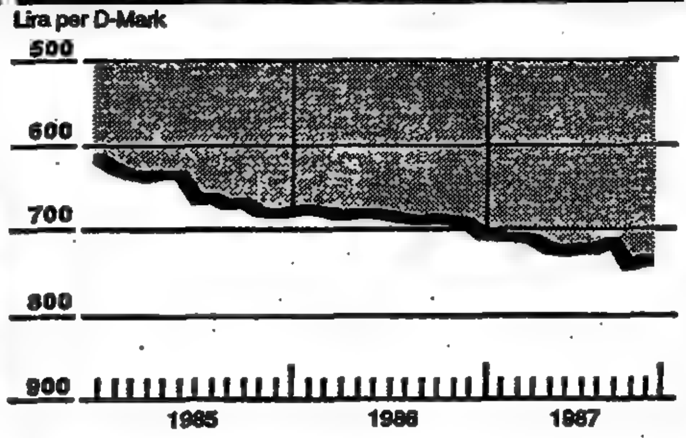
Source: Ciampi report to parliamentary committees 6.10.87

☐ For a summary of the Italian economic scene, see page two of this survey: Concern over the budget deficit.

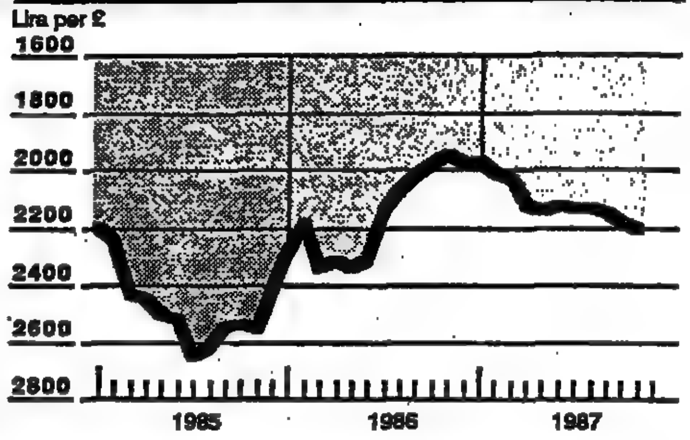
The Italian inflation rate



Lira against the D-Mark



Lira against Sterling



SECTION IV

FINANCIAL TIMES SURVEY

Now that the country's main motor is financial services it is vital to react quickly to the need for a change of emphasis and this is why the banking sector is switching enthusiasm for syndicated loans to wooing private investors. **Tim Dickson** says that there are still tensions in other financial fields to be resolved

A change of emphasis

LIKE A magnet which was losing its pull, Luxembourg seemed to be fading as a major European financial centre in the early 1980s.

Syndicated loan business, which had been the mainstay for many years, had collapsed in the wake of the international debt crisis; the Eurobond market was drifting to London; and with other activities insufficient to plug this yawning gap banks and other financial institutions suddenly found themselves searching for a role.

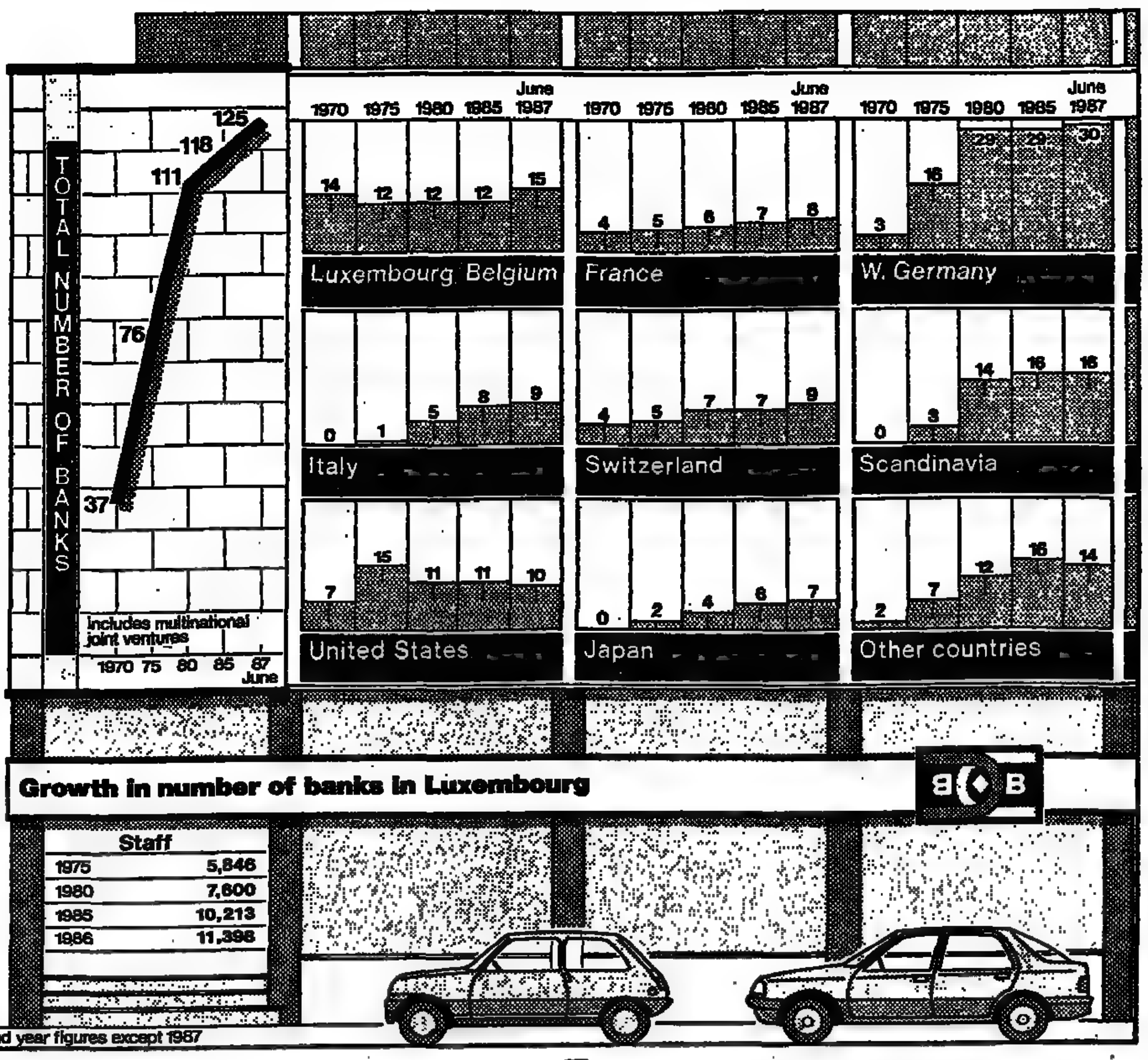
It says much for Luxembourg's flexibility, determination, and marketing skill that a new opportunity now appears to have been grasped in the form of 'private banking', essentially managing the wealth of rich individuals, as well as in the development of other 'niche' services for which the Grand Duchy appears to be particularly well suited.

Even after 'Black Monday' in the world's stock markets it is hard to find a banker whose mouth does not water at the still untapped potential for attracting private clients, while the arrival or imminent arrival of new banking groups like Britain's TSB and the Dutch Amro Bank suggests that the Luxembourg message is being taken seriously well beyond the confines of the Grand Duchy's 999 square miles (roughly the size of a typical English county).

Luxembourg's now much publicised niche is the man of middling wealth, an area of the market which locals argue is not so well served by nearby Switzerland. "We are not Zurich's poor relation, but we do accept poorer customers," says one banker emphatically.

Investment funds are flooding in, reinsurance services are expanding, and there are even well advanced plans to establish a Luxembourg 'flag' for international shipping - a bizarre development perhaps for a landlocked state but one with a more serious purpose than simply justifying the Grand Duchy's offshore centre tag.

It would be wrong, however, to give the impression that Luxembourg's self confidence has been fully restored. The Grand Duchy's financial sector may be recovering its poise but the illusion that it might one day rank in the same global league as London, New York or Tokyo has certainly been dented, if not finally shattered.



Luxembourg
BANKING AND FINANCE

On top of this Luxembourg still has its fair share of uncertainties. Private banking, for example, *may be more than the* flavour of the month but the skills and infrastructure needed to exploit the market are by no means fully established. Last month's crash in world stock markets may have left Luxembourg outwardly unruffled - the banks themselves not being major equity investors and their clients as interested in bonds as shares - but the long-term impact on individual investors is unlikely to be negligible.

While most worryingly of all perhaps the European Community's drive to free capital movements by the early 1990s could pose a long-term threat to Luxembourg's position if it is one day accompanied by a challenge to the tiny state's prized banking secrecy laws.

Luxembourg's switch in *emphasis from the wholesale banking* business of syndicated loans to the current enthusiasm for private banking is sometimes compared to the more fundamental transformation of the entire Luxembourg economy from one driven primarily by steel and agriculture to one whose main motor is financial services.

Last month's unexpectedly disappointing results from the Arbed steel group and the recent cutbacks at the large Goodyear plant in the Grand Duchy have only reinforced the importance of the banking and financial sector. As Mr Jacques Poos, Luxembourg's Treasury Minister points out, "Banking accounts for 15 per cent of GDP, 7 per cent of the total labour force and 20 per cent of government revenue. It also transforms a trade deficit into a large current account surplus".

Latest figures from the Luxembourg Monetary Institute(IML) show that the core lending activity still provides the bulk of bank earnings and the signs are that there has even been a revival of syndicated loan activity. Net interest receipts in 1986 were just over LuxFr 87bn., much more than commission income of LuxFr 10.26bn which has nevertheless more than doubled since 1983. Foreign exchange dealing slipped from just over LuxFr 6bn. to LuxFr 5bn last year.

The combined balance sheet totals of the 522 banks in Luxembourg last year rose by 5 per cent to LuxFr 8 trillion (8,000bn) - it would have been more but for the fall of the dollar - and according to IML officials a similar increase is expected for 1987. Operating profitability (before provisions) has suffered from lower global interest rates coming down from LuxFr 79.6bn in 1985 to LuxFr 76.5bn in 1986. A similar drop is expected for the the current year.

The reasons for Luxembourg's rise as a financial centre are many and various - its geographical position on a crossroads between Belgium, Germany and France, the country's political and social stability, the population's linguistic flair, and above all its flexible legal framework and banking control are all assets which have pulled in the customers. *The generous attitude of the authorities* in allowing banks to set aside provisions against losses on loans to foreign countries, for example, has negated the effect of the nominally high rate of corporation tax, due to come down to 36 per cent next year, and enabled banks to build up strong reserves.

The ability to gear up balance sheets without making deposits with a central bank has been a freedom in Luxembourg which many banks did not enjoy at home, while the advantages of Luxembourg's holding company and investment fund legislation have been widely used.

The Government's careful encouragement of the financial sector is invariably cited by bankers as a key factor in Luxembourg's success and the importance of banking is indeed appreciated by politicians of all parties (Luxembourg is governed by a coalition of Socialists and Conservatives).Not surprisingly, though, there are tensions lurking not far beneath the surface.

One major issue at the moment, for example, is the foreign banking community's campaign to win substantial tax concessions for their key 'expatriate' personnel, a development which many see as vital in improving the often inadequate technical and skill standards of the working population.

" There is virtually full employment here so we have to recruit a nucleus of good people from outside," complains one experienced observer. "We are having to compete with the high salaries in other financial centres which is not easy if you start paying tax at the top rate of 58.8 per cent on a taxable income of LuxFr 1.2m ($192,000).

The Luxembourg Bankers Association (ABBL) has recently agreed a compromise with the Government but negotiations are still continuing over just how many staff will qualify while some bankers remain unhappy with the results.

Besides the Government's important role, Luxembourg's position as a founder member of the European Community is for the moment at least proving to be a crucial asset. Luxembourg is highly sensitive to suggestions that it is a 'tax haven' but even those who still tactlessly insist on talking about the Grand Duchy in the same breath as certain Caribbean or South Sea Islands cannot fail to be impressed by the respectability conferred *by membership of Europe's foremost political and economic* 'club'.

That certainly appears to have been an important factor in the explosive growth of investment funds over the last three to four years - including a 50 per cent increase in the numbers established so far this year. In part this can be explained by the well-drafted law of 1983 which set up a flexible framework for investment management groups but increasingly banks and other institutions are moving to take advantage of the so-called UCITS directive, which from October 1989 will enable an investment fund established in one member state of the Community to market itself freely in other European countries.

This gives Luxembourg a significant competitive advantage over centres like the Channel Islands and the Isle of Man, both of which are British but neither of which is a part of the EC.

European Community membership, however, could be something of a mixed blessing as the debate on the freedom of capital movements in Europe moves forward. Mr Jacques Delors, the European Commission President, *wants EC citizens to be able to* open personal bank accounts in the member state of their choice without having to answer questions about short-term financial transactions - something which on the face of it should suit Luxembourg well.

The fear in Government circles, however, and to a less visible extent among bankers, is that the package will be accompanied by Europe- wide action to tighten up on tax evasion, either through a universal withholding tax or by new pressures on banks to disclose the nature of their customers' transactions.

Luxembourgers angrily deny that they turn a blind eye to criminal money but few refute the suggestion that significant amounts of 'black' money passes through their hands and that initiatives at EC level could stem the inflow of funds.

The Luxembourg Government - already incensed at what it sees as politically inspired attempts to undermine its position as the Community's alternative 'capital' - can be counted on to fight hard to retain its privileges while the bankers themselves believe they are dealing with a distant threat and that their recently proven flexibility guarantees their *long-term survival.*

CONTENTS

Private banking is faring very well in the Grand Duchy

Outlook remains bullish

A STORY circulating among Luxembourg bankers runs like this: so many private investors from Belgium slip into the Grand Duchy on Belgian public holidays that Brussels tax inspectors spend these days scouring their tiny neighbour's car parks, noting the registration numbers of their itinerant compatriots.

"Some enterprising fellow is even supposed to be making licence plate covers," one banker said, "so there may be some truth in it".

Apocryphal or not, the origins of this tale lie in the rapid expansion in private banking since the early 1980s. Figures from the Luxembourg Monetary Institute (IML) show that bank deposits from non-banks climbed 23.5 per cent in the 12 months to December 1986 to total more than $56bn - compared with an 11 per cent growth rate in 1985. And with more banks constantly arriving Luxembourg bankers remain bullish about the future.

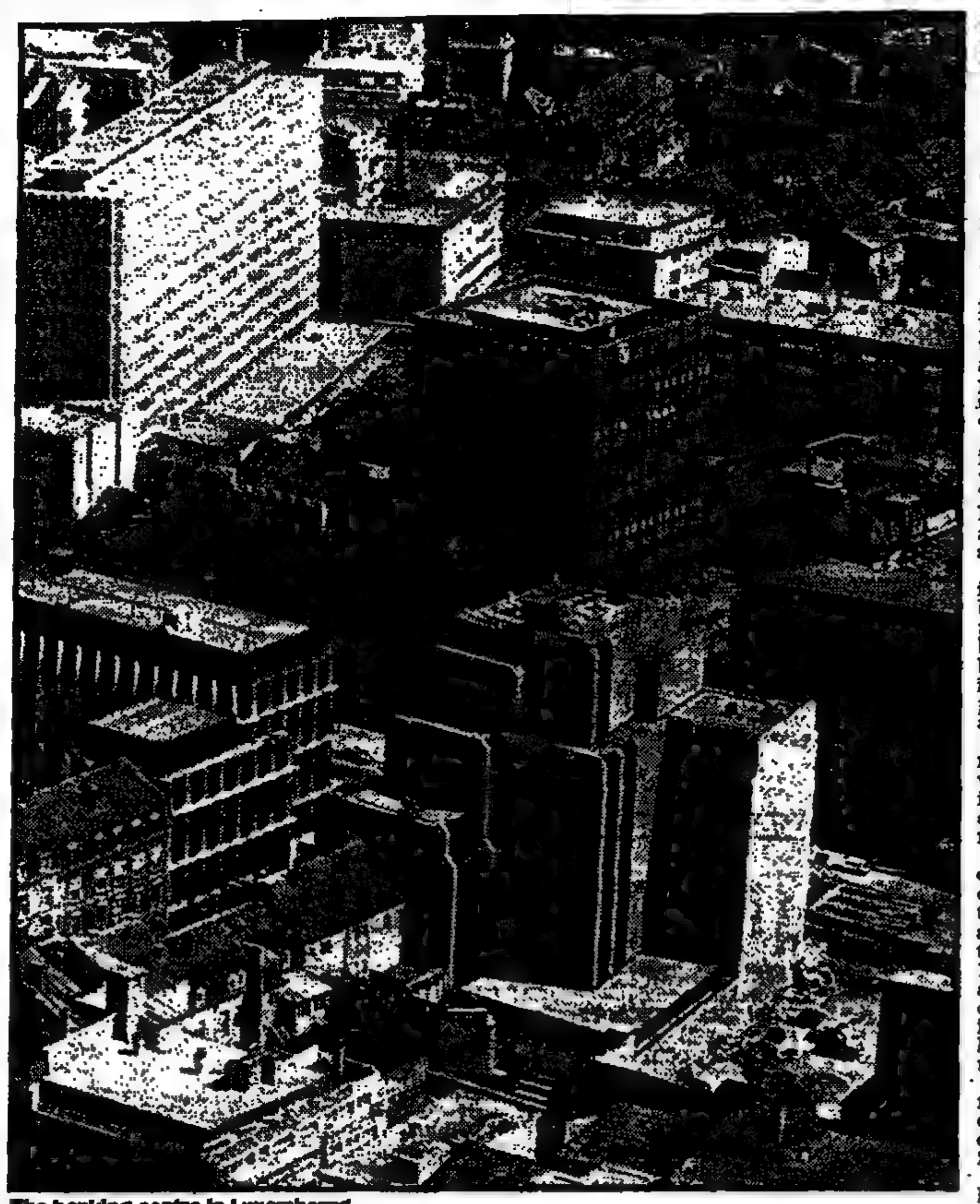
Until 1982 private banking in the Grand Duchy was the preserve of the Belgian and Luxembourg banks. The sector's star began its rise that year, when the sovereign debt crisis sparked the collapse of the Eurolending business, forcing banks to diversify.

Now most of the 126 banks in Luxembourg handle portfolio management, and deposits in gold, cash and securities for private investors.

Mr Volker Burghagen, managing director of Compagnie Luxembourgeoise de la Dresdner Bank, speaking for the Association de Banques et Banquieres, Luxembourg (ABBL) said: "Luxembourg has gained from the fact that one of the traditional areas of banking business here - the medium and long-term loan sector - disappeared. Many banks had concentrated on this area and so, faced the choice of shutting down or 'inventing' new areas of activity. Private banking was one of them."

The increased number of banks and the wider range of services offered is attracting customers from further afield than Belgium, the traditional market for Luxembourg banks. The growth of the West German economy, for example, has meant that medium-sized investors there have spare funds and increasingly see Luxembourg as a safe haven for investments.

Could the sector's expansion be described as a quantum leap? Mr Ole Roed, managing director of Bergen Bank International, and an ABBL spokesman thinks not: " Luxembourg as a place doesn't go in for quantum leaps.



The banking centre in Luxembourg

On the other hand private banking is very much more than the flavour of the month. There's been a very steady growth and I think you will see a bit of a leap to the extent that private banking is bringing in new banks. It's a mark of confidence in the future."

Indeed the lure of private banking is now attracting banks from Britain and the Netherlands, two countries so far not represented in Luxembourg.

Luxembourg is not short on enticements to private clients. Non-residents do not pay tax on investments and the 1981 Banking Act has enshrined the bank secrecy code in law. "And it's a recognised European country", one banker said, " it doesn't smell of a tax haven." In addition the Grand Duchy is only hours by car or train from many major European centres, an important consideration for many private clients who like to feel 'near' their investments.

Many medium-size private investors prefer to take their portfolios to Luxembourg in preference to, say, Switzerland. Charges are generally lower in Luxembourg and it also has the advantage of having no transaction taxes on the secondary market so that dealing works out cheaper than in Switzerland.

Mr Jean Adant, of Kredietbank Luxembourg - a bank that has been in the Grand Duchy for 38 years - believes Luxembourg has found an important niche, catering for the medium size investor. "Luxembourg is developing as an alternative to Switzerland. People want to diversify. There have been some leakages in Switzerland and banking secrecy has come under discussion."

Officials at the IML agree that no real competition exists between the two centres because both cater for different slices of the market.

Although business is increasing, Luxembourg bankers are keen to point out that in people terms banks in the Grand Duchy are still relatively small and that private investors get a more personal service than they would elsewhere.

They say customers turning up in person there can be sure of a warm welcome, if they have a 'decent amount' -" and that's a lot less than what the Swiss call a decent amount," one banker said.

Bergen Bank, which has been in Luxembourg for 11 years, only began actively concentrating on private clients a year ago. The bank offered the service before but didn't market it. It said that in a year it had about quadrupled the number of accounts and amount on deposit.

However, despite the increased number of banks looking for private business, bankers say profits are not being squeezed. Indeed staffing levels are being raised.

Bankers say they don't really compete with each other in Luxembourg because they don't do their banking there - customers are outside the Grand Duchy - so the fact that there are soon to be 130 banks within such a small area does not mean that much competition because marketing is all done elsewhere. Only a handful of banks do local business.

Despite the sector's dramatic rise, bankers are keen to point out that private banking is just one aspect of Luxembourg's total financial picture.

"It's an important part, a highly visible part, but profits-wise or volume-wise I do not think it is the most important one," an ABBL official said.

"In private banking the cost-earning ratio is considerably worse than in traditional Euromarket business. You must invest much more for your $1 profit and you need a very well functioning back office because the customer expects good service after the deal has been done, as well as before."

Patrick Butler

Mr Benny Larsen, and (right) Mr Robert Bee, joint managing directors of TSB Private Bank International SA

The newcomers

British are coming

THE STRONG growth in Luxembourg's private banking sector in recent years has been one of the reasons for the increasing interest being shown by foreign banks in establishing operations there.

The number of such concerns operating within the Grand Duchy's 999 square miles is now 126 - up from 118 two years ago - and is soon expected to reach 130.

"We are now getting in some of the top British and Dutch banks. And they wouldn't be coming without the private banking aspect. So private banking is good for Luxembourg for two reasons: first, for the banks that are already here and secondly, because it is bringing in new banks," said an official at the Association de Banques et Banquiers, Luxembourg.

The latest wave is being led by the TSB Group of the UK, which will become the first British bank to establish a bank in Luxembourg when it begins operations there in January.

Lloyds, a major UK clearing bank which was strongly rumoured to be planning a Luxembourg bank, said it had not yet made a decision.

"It's something we're looking at fairly seriously and we should be deciding within the next few months."

Amro of the Netherlands is set to become the first Dutch bank to open a full office in the Grand Duchy - Pierson, its competitor, has had a presence there for more than 10 years through a joint venture with Oppenheim, the German bank.

Amro bank holds a majority stake in Colugefi, a Luxembourg portfolio management company and intends to obtain a full banking licence when Colugefi's share capital has been increased to the level required by Luxembourg banking law.

The Dutch bank says the move is in line with the expansion in its international activities - Amro already has a bank in Chicago and a securities branch in Tokyo.

Bank of Bermuda has established a presence in Luxembourg through a company which will carry out administrative services to the mutual funds industry. As yet the office does not have a licence to operate, although it is understood that this is being processed by the Luxembourg financial authorities.

The TSB bank will have a staff of 12 and is setting up a representative office in London. The bank said the move, TSB's first into international personal banking, was a further demonstration of its strategy of establishing a presence in profitable niche markets with room for growth.

Two managing directors, Mr Benny Larsen and Mr Robert Bee, have been appointed by the bank, which will be located in Luxembourg's financial district. It will have authorised share capital of $20m and start-up capital of $10m.

Mr Larsen, formerly managing director of Maryland Bank International in Luxembourg and executive director and general manager of Merrill Lynch Bank in London, will be based in Luxembourg. Mr Bee, a former managing director and chief executive of London Interstate Bank and senior vice president of Wells Fargo Bank, will live in London.

"Luxembourg is becoming an increasingly important financial centre, particularly for international private banking - an area which TSB has been looking to expand into," the bank said.

"Luxembourg has been chosen because it suits the middle-rich market which we will aim for."

TSB said it aimed to cater for the new breed of "affluent and sophisticated consumers of financial services ... we will be based in a highly creditable and tested financial centre where conditions are particularly suitable for our customers. And we will be able to offer a marketing capability in London."

Patrick Butler

Liberalisation of capital movement and tax harmonisation

From niches to loopholes

OF ALL THE member states of the European Community, Luxembourg might be expected to welcome most the prospect of complete freedom of capital movements.

On the face of it, the final removal of all exchange controls by the least liberal member states should benefit most those financial centres already well-adapted to international capital, and offering efficient banking services.

Yet the plans for the final phase of capital liberalisation in the EC, tabled by the European Commission recently, are being regarded with considerable trepidation in the Grand Duchy.

Mr Jacques Delors, the president of the European Commission, wants the 12 to agree that all cross-border money movements, short of heaving bank notes across frontiers in a suitcase, should in principle be liberalised as a key element in completing the Single Market by 1992. That means allowing EC citizens to open personal bank accounts in any member state of their choice, and asking no questions about purely financial and short-term money transactions, many of which may be purely speculative.

So far, so good, for Luxembourg. The pressure is really on France and Italy, in the first place, to scrap their remaining exchange controls. Eventually member states like Spain, Greece, Ireland and Portugal would also be asked to fall in line.

There are enough doubts and fears about the whole operation to keep the negotiations going almost all the way to 1992. Jealously-independent central banks are worried that they will lose control over their domestic money supply. Socialist governments, in particular, see their room for economic and monetary manoeuvre being severely restricted by a conservative majority of member states.

Yet it is Luxembourg which is already setting out some of the most fundamental objections. There is a ghastly feeling that the very process of liberalisation could undermine much of the raison d'etre for the country's success as an international banking centre.

One specific proposal by the European Commission is causing grave difficulty for Luxembourg: that the dual exchange rate still operating in both Belgium and Luxembourg be scrapped as a distortion of true liberalisation.

The other fear is more delicate, but more fundamental: that the package will bring with it drastic action to tighten up on tax evasion, either in the form of a universal withholding tax, or by compelling banks to disclose information about their customers' transactions, which would dramatically reduce the inflow of capital into the country.

Mr Jacques Delors, president of the EC and (right) Mr Jacques Poos, Luxembourg economics minister: problems on cross-border money movements

The bankers themselves are putting a brave face on it. They are convinced that loopholes will be left in any system to allow Luxembourg to flourish - if only because a complete clampdown would simply drain money out of the EC markets entirely, to other havens like Switzerland or the Bahamas. They believe Luxembourg performs a very effective role of recycling money within the EC economy as a whole, and preventing any major capital drain.

"We have the feeling that the situation in Luxembourg in the Community has largely been accepted," according to one long-term foreign banker. "If there have been critics, Luxembourg has always used the argument cleverly: if you take it away from us, all that money will go to Switzerland, or somewhere else. It won't stay in the Community."

The Luxembourg Government, however, is taking a more forthright stand.

"The proposals put forward by Mr Delors and Lord Cockfield (the Commissioner responsible for the internal market) could affect us very badly if they are passed exactly as they stand," says Mr Yves Mersch, the senior Finance Ministry official, and Commissioner at the Stock Exchange, most closely involved in the Finance Ministers' negotiations.

The Government's most straightforward objection is to the scrapping of the dual exchange rate. That has little real effect any longer in discriminating between financial and commercial transactions, and discouraging capital flight from Belgium, because the two rates are now very close together. However the system behind it provides Luxembourg with an effective veto over any attempt by Belgium to introduce stricter exchange controls.

"It is a guarantee of liberalisation," Mr Mersch says. "Belgium cannot have a safeguard clause without consulting us. Any change in the exchange regime must be discussed (in the Belgo-Luxembourg Institut des Changes) and can be blocked if all three Luxembourg representatives object."

The new system would allow Belgium to introduce exchange controls under a safeguard clause at the say-so of the European Commission, just like any other member state.

On the tax implications of capital liberalisation, Luxembourg's position is inevitably less clear - because no firm proposals have been made.

"But they are offering us an impossible choice: between tax harmonisation and lifting bank secrecy," says Mr Mersch. "Yet they are not even all implementing their own directive of 1977 on co-operation between tax authorities. At least they should do that first."

Tax harmonisation is a problem for Luxembourg across the board for Lord Cockfield is also seeking greater harmonisation of value added taxes (VAT), which would remove much of the Grand Duchy's competitive advantage for consumer goods, as well as financial services. But tax harmonisation requires unanimity, so concessions will have to be made to Luxembourg, as much as to bigger member states like the UK.

Nor indeed is Lord Cockfield absolutely adamant on the question of tightening up on tax evasion: he simply says it is up to Finance Ministers. If they think it is going to be too big a problem, they will have to decide how to tackle it.

Bankers are more worried about what they regard as a growing threat to their tradition of secrecy. "If anything, that is the biggest danger," according to one. "There is likely to be growing pressure from the other member states."

Others who know the workings of the Community are more sanguine.

"When the EC sets a deadline, it usually takes much longer to achieve its aims," says Mr Volker Burghagen of Dresdner Bank. "I take heart from the fact that people were saying Luxembourg was finished at the end of the 1970s and early 1980s, because of the international debt crisis, and the fall in syndicated lending.

"We have proved to be more flexible than anyone imagined."

Quentin Peel

Reinsurance

Captive market

"WE ARE not seeking quantity; we are seeking quality." That is how Mr Victor Rod, the Luxembourg Finance Ministry's Insurance Commissioner, likes to characterise one of the Grand Duchy's more recent attempts to add a profitable new speciality to its financial services sector.

Luxembourg's latest financial attraction is so-called "captive" reinsurance, a service which has traditionally been the province of racy sounding tax havens like Bermuda or the Isle of Man, but now acquiring a new respectability in this tiny European state.

Captive re-insurance companies are set up by large companies to cover their own risks when traditional direct insurers find it difficult or expensive to provide cover themselves. The technique is simple: the parent company pays insurance premiums to a captive reinsurance subsidiary, which then lays off the risks in the professional reinsurance market.

Among the 50 large companies to have established captive reinsurance offshoots in Luxembourg in the past two years or so are Electrolux, Saab, Volvo, Alfa Laval and Asea of Sweden, Compagnie Generale d'Electricite, Rhone Poulenc and Pechiney of France, Philips of the Netherlands and GB-Inno of Belgium.

Between them, the Luxembourg captives are backed by shareholders' funds of LuxFr 3bn and probably have an annual premium of about the same level. There are no official figures yet, but it is clear that they dwarf the Grand Duchy's own domestic insurance market. Mr Rod expects to have issued licenses for at least 10 more captives by the end of the year.

By reinsuring themselves in this way, industrial groups can make big savings on premiums - at a time when insurance costs throughout the world have been shooting up - or even provide cover for risks that the conventional market will not accept. Captive insurance can also help multinationals to rationalise their cover, where they might otherwise have a range of conventional policies which wastefully overlap each other in different territories.

As such, interest in the technique has grown fast in recent years, even if captive insurance is not entirely new. According to one estimate, it accounts for 15 per cent of all industrial premium income. But why Luxembourg?

While the Grand Duchy is extremely sensitive to accusations of being a tax haven, it has gone out of its way to offer an attractive tax regime to reinsurers - and especially captive ones. However, to get government permission to set up in Luxembourg, reinsurers must have shareholders' capital of at least LuxFr 50m, deliberately set at around 10 times that required by other offshore centres.

Once past that barrier, the rewards are considerable. The biggest advantage, launched in November 1985, allows reinsurers to delay paying tax indefinitely on profits of up to 20 times annual premium income. The aim of this so-called equalisation provision is to provide for future claims.

This is something which most countries' tax laws already permit. The difference is that other EC governments are much less generous, allowing between 5 and 10 times annual premium income for captives' equalisation provisions, a reflection of pressure from standard insurance groups not to give too much special treatment to captives.

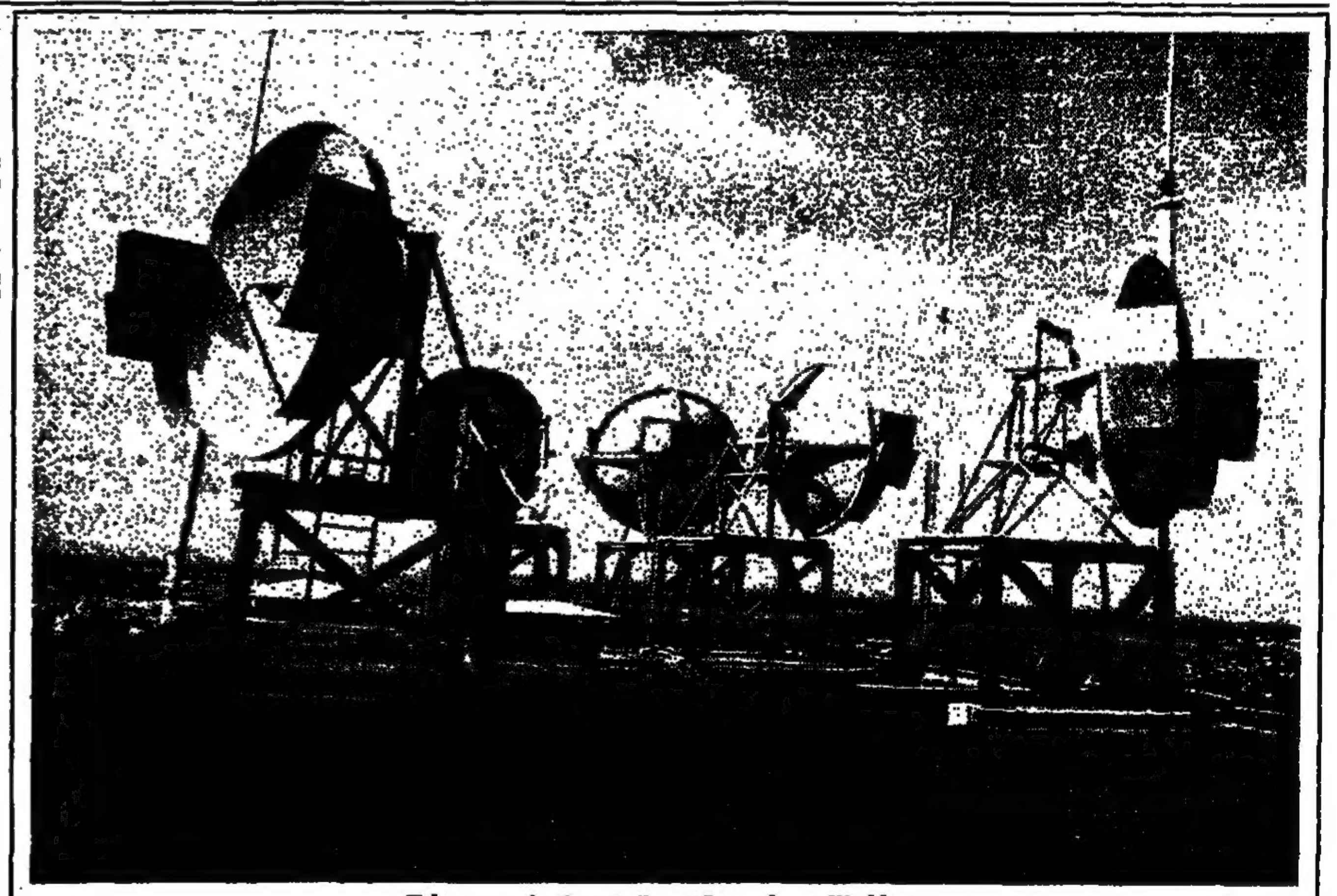
However Mr Rod stresses that even though the tax offset has no formal time limit, captives do have to submit a technical report on their claims outlook to the Finance Ministry every year.

They are also obliged to set premiums at market rates to head off any attempt to use Luxembourg reinsurance as a pure tax avoidance exercise.

During their short existence, Luxembourg's captives have been dominated by the Scandinavians, which represent 23 of the total. They are handled by the country's largest captive reinsurance management company, Sinser. But that dominance is being fast eroded by the French, most of which use Sinser's chief rival, Gecalux, manager of the reinsurance affairs of approaching 30 top French multinationals and banks.

Mr Roland Frere, Gecalux's managing director, says: "They feel that Luxembourg is a more serious and stable place than some island in the sun."

William Dawkins



Telecommunications station at Luxembourg-Kirchberg

The European Investment Bank is the world's second largest after the World Bank

The quiet giant of lending

PERCHED AMONG the trees on the Kirchberg plateau just above Luxembourg, the imposing headquarters of the European Investment Bank (EIB) are barely visible from the City itself.

The bank, which celebrates its 30th anniversary next year, adopts a similarly low profile in the public eye. This only conceals what few people realise is the world's second largest lending body of its type after the World Bank. It has a finger in hundreds of - contrastingly high profile -infrastructure and industrial projects across the European Community (EC), which absorbs more than 90 per cent of EIB lending.

They range from the Channel Tunnel to microchip factories in southern France and the prospective high speed train network for northern Europe. There is also a significant presence in the 66 African, Caribbean and Pacific States and the Mediterranean countries that have association accords with the EC, which account for the remainder of the bank's lending.

With successive EC enlargements, the demand for EIB loans has grown steadily and fast. Total lending from the bank's own resources and from funds it handles on behalf of other EC institutions climbed from Ecu 4.7bn in 1982 to Ecu 7.5bn last year. Meanwhile, the funds the bank has raised from the world capital markets have more than doubled over the same period from Ecu 3.2bn to a record Ecu 6.8bn collected in from 77 separate public bond issues in 1986.

The signs are that this year will see a pause for breath in the bank's extraordinary growth. The volatility of interest rates in the wake of the recent stock market crash means that EIB borrowers - mainly public authorities and industrial companies - are waiting until the last minute to draw down loans, explains Mr Philippe Marchat, manager for the bank's finance and treasury directorate. Rough estimates are that fund raising for 1987 will fall slightly to Ecu 6bn or less, while loan disbursements will decline to around Ecu 7bn.

"The big question for us today is whether this is just a temporary phenomenon or whether it establishes a trend," says Mr Marchat. The optimistic view is that the equity market crash might give the bank an edge in its fund-raising activities, assuming that institutional investors turn to bonds as a safer alternative to shares.

Moreover, the bank's triple A credit rating is an especially useful asset at times of economic uncertainty. "We believe the post-crisis situation will certainly benefit good names on the bond market," says Mr Marchat.

"The pessimistic view is that the equity slump might reduce loan demand from borrowers, especially from the less-developed member states like Spain, Portugal and Greece, where the bank is already finding it hard to place as much project finance as it would like.

"We are more affected on the lending side than the borrowing side by the interest rate uncertainty," says Mr Pit Treuman, the manager responsible for operations in the Community. "It is hard for us to fix our own rates with certainty."

For the time being, there seems no shortage of demand in the richer northern part of the EC, where the EIB is about to provide a facility of around £1bn for the Eurotunnel consortium in its largest single loan to date. The picture is, however, more depressed in the south.

Throughout its history, the EIB has had to tread a delicate line between being an EC institution and a commercial bank. It is formally independent when it comes to assessing loans. But the EIB does have a duty to ensure clients spend the cash in conformity with EC regulations, a requirement which only this year led to a rare clash with the Commission over a loan to a French construction project which had failed to observe EC rules on free tendering.

At its foundation, the bank was given the task of helping "the balanced and steady development of the common market," by promoting projects in less developed regions, modernising industry and contributing to projects that benefit several member states but are too large to be carried out by one country alone. Three years ago, environmental protection and in advanced technology in production were added to the bank's official investment preferences.

Its capital comes from two sources, the proceeds of its borrowings and shareholders' funds subscribed by member states. The latter started at Ecu 1bn in 1958 when there were only six EC members, and now stands at Ecu 28.8bn following a doubling in subscribed capital to cope with last year's entry of Spain and Portugal. Of that total 9 per cent has been paid in, with the rest ready to be called up when needed.

The bank's overall lending limit is set at two and a half times its Ecu 28.8bn subscribed capital, currently Ecu 72bn. Since outstanding loans at the end of last year were barely half that, at Ecu 36.3bn, the EIB has plenty of head room for expansion - enough to allow a more than 10 per cent increase in lending between now and 1991, when the bank estimates it will need to call on member states for another capital increase.

Officials emphasise that it is not the EIB's job to provide subsidies or finance on soft terms and that its interest rates are not negotiable. Indeed every loan must be fully guaranteed, preferably by the state, which is more security than most commercial banks need. However, it is non-profit making, within its articles' stipulation that reserves must stand a 10 per cent of subscribed capital. And the EIB's rating clearly allows it to borrow on the finest terms, reflected in the 0.15 per cent margin over cost built into its interest charges, a far slimmer margin than any purely commercial bank could tolerate.

Apart from the cash on-lent from its own resources, the EIB disburses EC funds for less developed nations outside the Community, representing Ecu 473.7m last year. It also allocates funds under the so-called New Community Instrument (NCI), money raised on the world capital markets by the European Commission for on-lending to small and medium-sized businesses, an objective which would otherwise be peripheral to the bank's own broad task of helping regional development.

William Dawkins

Financing provided in the EC

	Total 1986 million ECUs	%	Total 1985 million ECUs	%
Belgium	46.1	0.7	77.8	1.2
Denmark	258.2	3.7	332.8	5.1
Germany	441.8	6.2	91.4	1.4
Greece	253.0	3.6	423.7	6.5
Spain	409.3	5.8	—	—
France	623.4	8.8	1247.4	19.1
Ireland	262.1	3.7	174.5	2.7
Italy	3024.0	42.8	2978.0	45.6
Luxembourg	18.2	0.3	—	—
Netherlands	98.2	1.4	69.1	1.1
Portugal	190.3	2.7	—	—
United Kingdom	1371.5	19.4	1130.1	17.3
Others	75.0	1.1	—	—
Grand Total	7071.1	100.0	524.4	100.0

Source: EIB

Euromarkets

A squeeze from two directions

NOT EVEN the crash on the world's stock markets has helped to lift the gloom pervading the Euromarkets - and Luxembourg is no exception.

Eurobonds in particular, which launched the Grand Duchy on the road to international banking wealth in the 1960s, are in the doldrums, and few dealers see much hope of early relief.

The market is being squeezed from both directions: competition between issuing banks has reduced profit margins to a pittance, and made it a borrowers' market. At the same time, investors have disappeared - both institutions and individuals - and the lack of liquidity means they are not coming back again.

Not only are traditional market-makers in Eurobonds pulling out in increasing numbers, but dealers cite several cases where even the banks which lead managed an issue have refused to quote buy and sell prices.

"The Eurobond market is in a real mess," says Mr Wim Van Mulders, head of bond and loan syndications at Kredietbank's Luxembourg subsidiary.

"The whole market has been monopolised by institutional investors and banks taking large positions. Now the institutional investors are looking more and more towards their domestic markets, because they say the Euromarkets are too illiquid.

"Investment banks are still fighting to get mandates on whatever terms they can offer. There is very unhealthy competition, mostly among lead managers. Issues come on the market mostly mis-priced - not necessarily for the lead managers, but certainly for the co-managers. The terms are not sufficient for the syndicate to make profits on the operation.

"Although it is a borrowers' market, the markets are not really open any more. There are almost no issues coming through. That means the borrowers are uneasy, because they need money, but nothing is moving.

"The mess in the market is that there is really nothing to gain at the moment for any of the participants."

Yet Luxembourg banks have latterly become increasingly cautious about their exposure in the Eurobond markets, and they are likely to be less hard hit than their counterparts in London.

Few have been major market-makers, but have concentrated rather on dealing on behalf of their private clients. Yet even those individuals - the ubiquitous 'Belgian dentist' - have lost interest in the market they helped to create.

"The Euromarket proved to be particularly interesting, with a huge range of currencies, and small amounts available," according to Mr Robert Scharfe, a senior adviser at the Banque Generale du Luxembourg (BGL). "It was just what the small client was looking for. The amounts we were talking about were too small for domestic markets."

Since those days, however, the amounts called for in the major currencies - US dollars, Deutschemarks, Swiss francs and the like - have increased dramatically.

Another factor discouraging Belgian and Luxembourg private investors has been the relative strength of their own currency, after years of weakness: DM bonds or Dutch guilders no longer offered a significant yield differential to the Belgian franc.

Luxembourg banks are more cautious about exposure in the Eurobond markets and are likely to be less hard hit than London counterparts

A lot of private liquidity has also gone into the revived interest in investment funds, which provide the Luxembourg banks with a more flexible vehicle for clients' investments.

The last straw in drawing away what private investor interest remained in Eurobonds was the last two years of soaring equity markets - and most dealers are convinced they will not come back rapidly, in spite of their burnt fingers.

"The shift from equity to bonds has been largely overrated," Mr Van Mulders believes. The top priority for private investors will now be to remain liquid, which may be possible in domestic bond markets, but not on the Euromarkets.

Mr Georges Muller, managing director of Cedel, the Eurobond clearing house, believes institutional investors will also opt for shorter-term paper, such as commercial paper. "Demand is very soft, and nobody can make a definitive judgement on how long it will take to recover."

Luxembourg banks have concentrated more on three key areas. One is bonds for major supra-national institutions like the World Bank, European Investment Bank, the European Commission and the like. All would be triple-A rated, and subject to fierce competition. In recent days, the Italian market-maker BCI has announced its decision to quit quoting prices, leaving only BGL as a market-maker on the European continent.

Ecu bonds has been another important sector, with the three Luxembourg market makers - BGL, Banque Internationale a Luxembourg (BIL), and Kredietbank - responsible between them for more than 50 per cent of the market. In 1986, Ecu bonds were issued to a value of some Ecu 29bn (£20bn), more than a third for multi-national companies.

Yet their popularity has slumped over the past 18 months. First the volatility of sterling made the Ecu basket seem less of a haven of stability (the pound is a member of the currency basket, but not of the exchange rate mechanism of the European Monetary System). The Belgian franc's relative stability may also have stemmed investment interest from that direction.

West German arguments against the attractions of an investment tied to a currency basket, as opposed to an individual currency whose performance can be more closely monitored, may also have had some effect.

Whatever the cause, the Ecu has been pushed back into sixth place amongst Eurobond issues so far this year by the Australian dollar.

First Citicorp announced it was pulling out of Ecu bond market making in Luxembourg. Now BIL has confirmed that it is quitting as a market-maker in Ecu bonds to the professional sector - although it will continue to make markets for its private clients, and support those deals it has lead managed.

Increasingly the Luxembourg banks are concentrating on so-called niche markets to do business - such as the Australian dollar, the Danish kroner, and their own modest Luxembourg franc sector.

There is still some interest in Danish kroner, thanks to interest rates of up to 12 per cent - which even for a relatively weak currency in the European Monetary System exchange rate mechanism look generous.

But real enthusiasm is almost exclusively reserved for the little Luxembourg franc.

"It is a small market, but very nice," says Mr Van Mulders. "There are a lot of candidates queuing up, but each month you get only one public issue, and eight or ten private placements. It still gives you very cheap money compared to other markets."

Quentin Peel

Nearly 400 investment trusts have been officially approved

A rush of applications

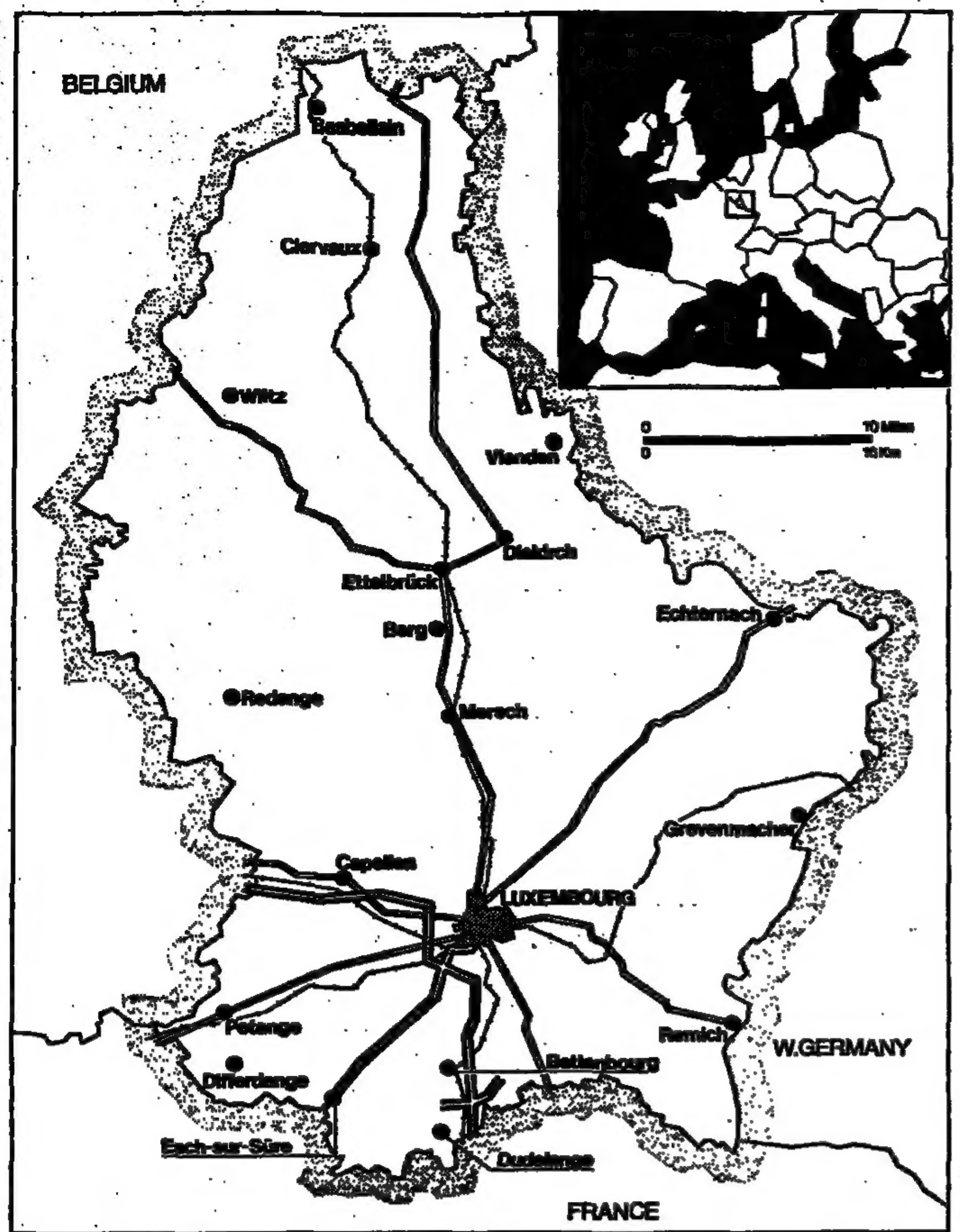
IF THE Luxembourg authorities are inclined to boast a little about the numbers of new banks wishing to open for business in the Grand Duchy, they positively preen themselves when the subject of investment funds is raised.

Judging by the latest figures, the attitude appears to be amply justified. By the end of last month a total of 395 funds had been officially approved by the Luxembourg Monetary Institute (IML), an increase of more than 50 per cent on the figure of 261 at the beginning of 1987. On top of this no fewer than 100 funds are awaiting permission to establish themselves, with new applications understood to be flowing in at the rate of about 20 per month.

Given that there were fewer than 76 investment vehicles in the Grand Duchy in 1980, Luxembourg has moved rapidly from the status of a mere also ran in the fund management stakes to that of a major European (and indeed international) centre for this type of financial operation.

The crash on world stock markets last month will almost certainly check the pace of expansion but it is unlikely to reverse the upward trend. True, Luxembourg has gained like other centres such as London and Frankfurt from the renewed interest of private individuals in equities and bonds over the last five to 10 years and to the extent that these investors will be more risk averse in future there could well be a knock on effect on new fund activity. The recent growth of funds in Luxembourg, however, owes more to a combination of relative advantages which are largely unaffected by gyrating share, bond, or currency prices.

The first investment vehicle was established in Luxembourg in 1959 but a more important landmark was the Law of 25 August, 1983, which according to the introduction of a useful guide published by accountants Peat, Marwick, Mitchell, "provided a more precise framework for the establishment and operation of investment funds in Luxembourg".



This law is widely regarded as having been well drafted and having clear regulatory guidelines. It recognises three distinct types of vehicle: the Fonds Communs de Placement (FCP), similar to the UK unit trust or US mutual fund; the Societe d'Investissement a Capital Variable (SICAV), a limited liability company with variable share capital which has no Anglo-Saxon equivalent; and "other investment funds" which includes all companies and any other organisations, whatever their legal form, which are subject to Luxembourg law and which have as an activity the collective investment of public savings by the offer of securities or other instruments.

The key fiscal advantages are that Luxembourg investment funds pay no taxes on income or capital gains, while individual investors suffer no withholding taxes on dividends received. Unlike holding companies, moreover, funds can invest in a wide range of assets - from financial futures and commodities to venture capital and property. Promoters have to pay a LuxFr 50,000 (£800) registration fee and a 0.06 per cent subscription tax on the value of their assets.

It is no coincidence that the number of Luxembourg funds has jumped fourfold since the Law of 1983 - and particularly since the creation of the flexible SICAV - but other factors have to be taken into account. This period, for example, has also seen the development of Luxembourg as a major private banking centre for individuals best described in rich man's parlance as "the moderately well off". Thus just as unit trusts are used by British stockbrokers collectively to manage the funds of small UK investors, so the Luxembourg banks have been setting up managed funds to provide an extra and cost efficient tool in their range of services.

The facts are, though, that by far the majority of new funds in Luxembourg are established by non-Luxembourg financial institutions while only a small percentage (at most 10 per cent, according to IML officials) are actually managed from within the Grand Duchy.

Besides its legal and fiscal attractions, Luxembourg has been able to trumpet the traditional virtue of political stability, respectability vis a vis some more 'exotic' locations, plus its enviable position as a founding member of the European Community. Two other important 'selling points' are the Luxembourg Stock Exchange - some Europeans are only allowed to invest in listed companies so many funds have obtained a quote - and the plentiful supply of local banks such as Banque Internationale a Luxembourg (BIL) and Kredietbank which can provide a comprehensive and efficient domiciliation service.

Membership of the EC obviously does wonders for the image but these credentials have assumed a new significance since the adoption by the EC Council of Ministers of the so called UCITS directive. Agreed in December 1985 but only due to come into effect in October 1989, this legislation essentially harmonises the rules applying to open-ended investment funds and (crucially) permits vehicles based in one country to be promoted throughout Europe.

This law will give Luxembourg a distinct advantage over areas like the Channel Islands and the Isle of Man (which are not part of the Community) and indeed there are already clear signs that some funds are basing themselves in Luxembourg to take advantage of the wider European market which will open up in less than two years time.

The Luxembourg Government, of course, has to amend its own laws to comply with the directive but despite some unexpected delay the necessary changes should be in place by next year.

Two concerns are voiced privately by bankers and others in the Grand Duchy. One is the still small (though growing) number of funds which are managed locally laying Luxembourg open to the unwelcome charge of providing a 'brass nameplate service'. The other is the potential strain that the sharp increase in new funds may put on the resources of the supervisory authorities.

Nobody denies that rigorous vetting of newcomers has helped preserve Luxembourg's reputation and so far avoided the sort of scandals which have been so damaging in other financial centres. Some observers worry, however, that too little attention may be being paid to monitoring the continuing activities of funds once they have been established.

Tim Dickson

Cedel

French flavour

THE CARVED wooden bannisters, oak panelling and stained glass windows of a fine bourgeois Luxembourg town house - one of all too few left unscathed by the explosion of modern banking buildings - give an appropriate air of solid respectability to Cedel, the Euromarkets clearing house.

Founded by the banks, for the banks in 1970, to cope with their burgeoning Eurobond transactions, Cedel competes with Morgan Guaranty's Brussels-based Euroclear to provide the most efficient system of clearing an increasingly complex network of multi-currency international securities' transactions.

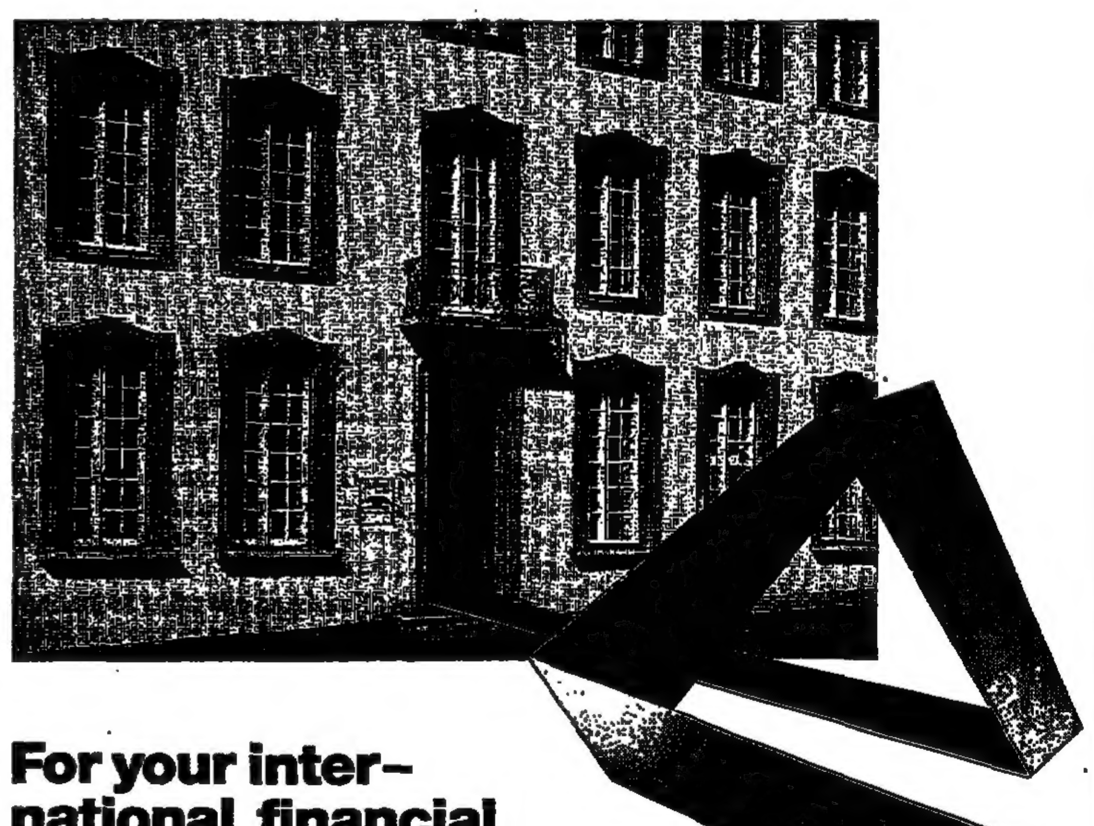
With more than 100 shareholders, none holding more than five per cent of the equity, Cedel has a stronger Francophone flavour than its rival. It prides itself on specialising above all in European currency securities.

Cedel - the title stands for Centrale de Livraison de Valeurs Mobilieres - handles transactions in 27 currencies, and in spite of the stagnation of the Eurobond market, its turnover is steadily increasing. In 1986 the total value of transactions passing through its computers came to US$1,207bn. That figure was already overtaken by the end of September this year.

The securities numbering nearly 15,000 now accepted for clearance include the whole range of major domestic bonds, Euro-equities, gold bullion traded on the Luxembourg stock exchange, as well as the traditional Eurobonds. Now a whole range of short-term instruments, such as Euro-notes and certificates of deposit, have been added to the list.

He forecasts that more and more commercial paper will be cleared through the system, although bankers themselves are more sceptical.

Quentin Peel



Tim Dickson sketches the background of three of the best-known bankers in the financial centre

Eminence grise at BIL

FEW LUXEMBOURG bankers are better known than Edmond Israel, a member of the executive board of Banque Internationale a Luxembourg, chairman of the international securities clearing house Cedel, and the Grand Duchy's closest equivalent to an 'eminence grise'.

Mr Israel has been preaching the Luxembourg gospel for many years - even in the bad times - and now understandably feels that his optimism and enthusiasm have been well justified. His main thesis today is that the EC's tiniest member state has truly come of age as a banking and financial centre, and that its wide range of services and expanding infrastructure provide a firm base for future development.

"When bankers start doing their own thing, a centre achieves a certain degree of maturity," he suggests, explaining that the growth of private banking and other specialised products such as Ecu instruments after the decline of the syndicated loan business has given Luxembourg "its own dynamic."

Mr Israel's BIL was appropriately the first financial institution of it kind to be established in Luxembourg, in 1856, and belongs to the group colloquially known as "the local banks." Although it is not popular to say so, this is slightly misleading since Groupe Bruxelles Lambert(GBL), the major Belgian company, controls a significant but undisclosed stake in BIL while Kredietbank SA Luxembourgeoise, another of the genre, is owned by a Belgian holding company.

"BIL, which had a balance sheet total at the end of last year of just over LuxFr 320bn ($5.12bn), is active in most areas of business - notably private banking (where it was established long before the foreign banks started to show any interest), asset management, Euro-lending and Eurobonds, and servicing holding companies and investment funds.

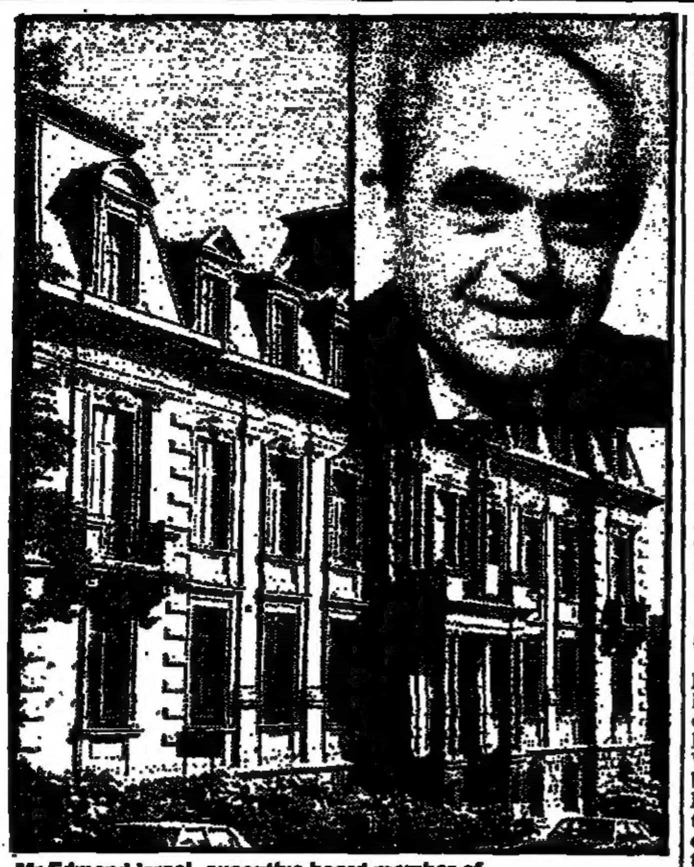
Mr Israel's confidence in the future stems from the new diversity of banking activities; from the constructive support which he says is provided by the Government and by the monetary authorities; and by the broad infrastructure of financial services.

He admits to a certain disappointment at the recent slow development of the Ecu. He points out that "there is not enough liquidity" but argues that "the market has shown the way and that political decisions are now needed" (including British membership of the European Monetary System).

He is also concerned by the shortage of certain skills in the financial community and would like to see "a more systematic schooling and training for the younger generation in the new techniques".

Mr Israel, however, appears unruffled by suggestions that the European Community's objective of a free market in goods, services and capital by 1992 could dent Luxembourg's competitive advantages. He says that the implications of fiscal harmonisation (e.g. of value added tax) will have an impact beyond simply the area of financial services.

And he believes that the internal European market is only a part of the "global market" in banking and finance which already exists and the challenge of which Luxembourg is well placed to meet.



Mr Edmond Israel, executive board member of Banque Internationale a Luxembourg

Roed view of growth

IF THE West German banks 'discovered' Luxembourg in the late 1960s, the Scandinavians were not far behind and now constitute the second biggest grouping in the Grand Duchy.

As Mr Ole Roed, managing director of Bergen Bank International, a wholly owned subsidiary of the Norwegian bank of the same name explains, "We needed an offshore centre in the 1970s to 'book' our Euro-loans and the Grand Duchy was the nearest both geographically and culturally. Not being a tax haven,it had a better reputation than some of the alternatives but one of the key advantages was that we were able to gear up our balance sheet thanks to the more relaxed capital ratios".

Bergen Bank's volumes and profits in Luxembourg are still largely derived from the corporate side of its business - export and project finance and Treasury operations, for example - but Mr Roed candidly admits that he sees little prospect of significant growth from these activities. A relaxation of regulations at home is partly responsible.

Like most of his rivals in the Grand Duchy, he is therefore turning much of his attention to the possibilities of private banking and asset management for wealthy individuals.

'Rivals' is not necessarily the best word for most banks sell their wares well away from Luxembourg in a wide variety of different markets. "Our typical customer is a retired Norwegian living away from Norway in the south of France or Spain", he explains.

Quadrupled

In the last 12 months Bergen Bank has quadrupled its number of personal accounts, admittedly from a very low base. Over the last 18 months it has increased personal customer funds from virtually nothing to around $75m. "Some of this is just on deposit but the most popular instruments have been bonds and equity and bond funds," says Mr Roed

Mr Ole Roed, managing director Bergen Bank International

Burghagen optimistic

MR VOLKER Burghagen, managing director of Compagnie Luxembourgeoise de la Dresdner Bank, the longest established West German bank in Luxembourg, has been in the Grand Duchy for the last 18 years. Sitting in his office in Dresdner's elegant 17th century headquarters - a restored patrician's residence close to the Grand Duke's residence and the Luxembourg Parliament - he offered his views on several of the key issues.

On West Germany's decision to impose a withholding tax on investment income: "I am strongly of the opinion that it is economic nonsense but it will probably have a positive impact on financial centres like Luxembourg. It was a big mistake to announce it late on a Friday without adequate explanation. Until the details become clear as to how it will work and what is and is not exempt the impact will not be known. But people have already rung up asking if they should shift funds - it is only logical that they should want to move money abroad".

On 'Black Monday' in world stock markets: "We have had virtually no withdrawals and while some newer investors may have burnt their fingers equities will continue to be important. Customers in Luxembourg in any case want advice on a whole range of investments. To the extent that some people may shift their money to raw materials or property there may be an indirect effect but I don't think so."

On the collapse of lending to developing countries in the early 1980s: "Private banking is just one of the new activities. Foreign exchange dealing, trading in securities and inter-bank money transactions and more sophisticated loan business have all developed. The diversification has required better people and I have seen a distinct improvement in the quality of management since I have been here."

Mr Volker Burghagen, managing director of Compagnie Luxembourgeoise de la Dresdner Bank

On the European Community's plans for free capital movements by 1992: "It is an issue. It is true that if we had a totally homogeneous legal and fiscal system in Europe Luxembourg would have lost a lot of its attractions. On the other hand, when the EC sets a deadline it usually takes much much longer to achieve its aims. I also take heart from the fact that people were saying Luxembourg was finished at the end of the 1970s and early 1980s

We have proved to be more flexible than anyone imagined. The years 1992 or 1995 may be clouds on the horizon but God knows what we will have invented by then"